THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your Shares in Sparkle Roll Group Limited, you should hand this circular with the accompanying form of proxy at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Sparkle Roll Group Limited nor shall there be any sale, purchase or subscription for securities of Sparkle Roll Group Limited in any jurisdiction in which such offer, solicitation or sale would be unlawful absent the filing of a registration statement or the availability of an applicable exemption from registration or other waiver. This circular is not for release, publication or distribution in or into any jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

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Sparkle Roll Group Limited
耀萊集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

(1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF APPROXIMATELY 15.09% SHAREHOLDING IN BANG & OLUFSEN A/S AND 49% EQUITY INTERESTS IN BALANORM BEO (BEIJING) TRADING DEVELOPMENT LIMITED*; (2) PROPOSED GRANT OF SPECIFIC MANDATE OF THE COMPANY TO ALLOT AND ISSUE THE CONSIDERATION SHARE; AND (3) NOTICE OF SGM

Financial adviser to the Company

東英 ORIENTAL PATRON

Independent Financial Adviser to
the Listing Rules Independent Board Committee and the Independent Shareholders

TC CAPITAL

All capitalised terms used in this circular shall have the meanings ascribed to them in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 26 of this circular. A letter from the Listing Rules Independent Board Committee is set out on pages 27 to 28 of this circular. A letter from TC Capital containing its advice to the Listing Rules Independent Board Committee and the Independent Shareholders is set out on pages 29 to 58 of this circular.

A notice convening the SGM to be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 4:30 p.m. on 13 December 2016 is set out on pages 372 to 374 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed on it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time fixed for holding the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending, and voting at, the SGM or any adjournment thereof if you so wish.

25 November 2016

* *for identification purposes only*

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Except for those in the Appendix II – Financial Information of B&O, the following expressions in this circular shall, unless the context otherwise requires, have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares and the Sale Equity by the Purchasers from the Vendors pursuant to the Sale and Purchase Agreement
"acting in concert"	has the meanings ascribed to it under the Takeovers Code
"associates"	has the meaning ascribed to it under the Listing Rules
"B&O"	Bang & Olufsen A/S, a company incorporated in Denmark, whose registered office is at Peter Bangs Vej 15 DK-7600, Denmark and whose shares are listed and traded on Nasdaq Copenhagen (stock code: BOAS)
"B&O Shares"	shares of a nominal value DKK10 each in the issued share capital of B&O
"Board"	the board of Directors
"Business Day(s)"	a business day is a day on which the Stock Exchange is open for the transaction of business
"Company" or "Sparkle Roll"	Sparkle Roll Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange (stock code: 0970)
"Completion"	completion of the sale and purchase of the Sale Shares and the Sale Equity pursuant to the Sale and Purchase Agreement
"Completion Date"	the fifth Business Day after the date on which the last of the outstanding condition precedent set out in the Sale and Purchase Agreement shall have been fulfilled or (as applicable) waived or such other date as the Parties may agree on which Completion shall occur
"Conditions Precedent"	the conditions precedent to which Completion is subject
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Consideration"	the aggregate of the Sale Shares Consideration and the Sale Equity Consideration, being HK$522,633,868.65
"Consideration Share(s)"	a total of 1,161,408,597 Shares to be allotted and issued by the Company to the Offshore Vendor pursuant to the Sale and Purchase Agreement
"Denmark"	the Kingdom of Denmark
"Director(s)"	director(s) of the Company
"DKK"	Danish Krone, the lawful currency of Denmark
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Financial Adviser" or "TC Capital"	TC Capital International Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Listing Rules Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the Acquisition
"Independent Shareholders"	Shareholder(s) other than (i) the Offeror, Mr. Qi, their respective associates and parties in concert with any of them; and (ii) those who are interested in or involved in the Acquisition and/or the Offer who are required to abstain from voting at the SGM pursuant to the Listing Rules and the Takeovers Code
"Issue Price"	HK$0.45 each per Consideration Share
"Joint Announcement"	the joint announcement issued by the Company and the Offeror dated 20 October 2016 in relation to, among other things, the Acquisition and the Offer

"Kingston Securities"	Kingston Securities Limited, a corporation licensed by the SFC to carry out Type 1 (dealing in securities) regulated activity under the SFO which shall make the Offer on behalf of the Offeror
"Last Trading Day"	20 October 2016, being the date of the Joint Announcement
"Latest Practicable Date"	22 November, 2016, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Listing Rules Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor, to consider and advise on the fairness and reasonableness of the terms of the Sale and Purchase Agreement
"Long Stop Date"	31 March 2017, or such later date as the Parties may agree in writing, being the last day to fulfil or (if applicable) waive the conditions precedent of the Sale and Purchase Agreement
"Mr. Qi" or "Guarantor"	Mr. Qi Jian Hong (綦建虹), a substantial shareholder of the Company, and the ultimately beneficial owner of the Offeror
"Nasdaq Copenhagen"	a stock licensed market in Denmark
"Offer"	the possible mandatory conditional cash general offer to be made by Kingston Securities for and on behalf of the Offeror to acquire all the issued Shares not already owned and/or agreed to be acquired by the Offeror and Mr. Qi in accordance with the Takeovers Code
"Offer Share(s)"	Share(s) not already owned and/or agreed to be acquired by the Offeror and Mr. Qi

"Offer Price"	the price at which the Offer will be made, being HK$0.45 per Offer Share
"Offshore Vendor" or"Offeror"	Sparkle Roll Holdings Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Qi
"Onshore Purchaser"	Sparkle Roll Xin Tian Di Commerce Development Limited*(北京耀萊新天地商業發展有限公司), a company established in the PRC with limited liability and is indirectly wholly-owned by the Company
"Onshore Vendor"	Beijing Sparkle Roll Investment Limited*(北京耀萊投資有限公司), a company established in the PRC with limited liability and is wholly-owned by Mr. Qi
"Parties"	the parties to the Sale and Purchase Agreement, namely the Purchasers, Vendors and the Guarantor; and each a "Party"
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"PRC JV"	Balanorm Beo (Beijing) Trading Development Limited*(衡准寶聲(北京)貿易發展有限公司), a joint venture established in the PRC
"Purchasers"	collectively, the Company and the Onshore Purchaser
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the conditional sale and purchase agreement entered into between the Purchasers, the Vendors, and the Guarantor in relation to the acquisition of Sale Shares and the Sale Equity dated 20 October 2016
"Sale Equity"	a portion in the paid up capital of the PRC JV to the extent of RMB24,500,000, constituting 49% of the entire paid up capital in the amount of RMB50,000,000 in the PRC JV, contributed by and registered in the name of the Onshore Vendor
"Sale Shares"	a total of 6,519,358 B&O Shares beneficially owned by the Offshore Vendor

"Sale Equity Consideration"	the consideration for the sale and purchase of the Sale Equity
"Sale Shares Consideration"	the consideration for the sale and purchase of the Sale Shares
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 13 December 2016 at 4:30 p.m. for the Independent Shareholders for the purpose of approving, among other matters, the Acquisition, the issue and allotment of the Consideration Shares, the Sale and Purchase Agreement and the transaction contemplated therein
"Share(s)"	ordinary share(s) of HK$0.002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Shares
"Specific Mandate"	the specific mandate proposed to be sought by the Board from the Independent Shareholders at the SGM to allot and issue the Consideration Shares pursuant to the terms of the Sale and Purchase Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	such term has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Hong Kong Codes on Takeovers and Mergers and Share Buyback
"Vendors"	collectively, Offshore Vendor and Onshore Vendor

"Warranties"	the warranties given by the Vendors under the Sale and Purchase Agreement as to the title to the Sale Shares and the Sale Equity
"%"	per cent.
"*"	for identification purpose only

Sparkle Roll Group Limited
耀萊集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

Executive Directors:
Mr. Tong Kai Lap *(Chairman)*
Mr. Zheng Hao Jiang
(Deputy Chairman and Chief Executive Officer)
Mr. Zhu Lei

Non-executive Director:
Mr. Zhang Si Jian
Mr. Gao Yu
Mr. Qi Jian Wei

Independent non-executive Directors:
Mr. Choy Sze Chung, Jojo
Mr. Lam Kwok Cheong
Mr. Lee Thomas Kang Bor

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Rooms 2028-36
20/F Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

25 November 2016

To the Shareholders

Dear Sir/Madam,

(1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF APPROXIMATELY 15.09% SHAREHOLDING IN BANG & OLUFSEN A/S AND 49% EQUITY INTERESTS IN BALANORM BEO (BEIJING) TRADING DEVELOPMENT LIMITED*; (2) PROPOSED GRANT OF SPECIFIC MANDATE OF THE COMPANY TO ALLOT AND ISSUE THE CONSIDERATION SHARES; AND (3) NOTICE OF SGM

INTRODUCTION

Reference is made to the Joint Announcement in which the Company and the Offeror jointly announced that on 20 October 2016, the Purchasers entered into the Sale and Purchase Agreement with the Vendors and the Guarantor, pursuant to which (i) the Offshore Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares for Sale Share Consideration of HK$494,145,496.35; and (ii) the Onshore Vendor has conditionally agreed to sell and the Onshore Purchaser has conditionally agreed to purchase the Sale Equity for Sale Equity Consideration of HK$28,488,372.30. The aggregate Consideration of HK$522,633,868.65 will be satisfied by the issue and allotment of the Consideration Shares at Issue Price to the Offshore Vendor.

None of the Purchasers shall be obliged to purchase any of the Sale Shares nor the Sale Equity unless the sale and purchase of all the Sale Shares and the Sale Equity are completed simultaneously.

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Listing Rules Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Independent Shareholders in the same regard; (iv) the financial information of the Group, B&O and the PRC JV; (v) the notice of the SGM; and (vi) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date: 20 October 2016 (after trading hours)

Parties:

Purchasers:
(a) the Company; and

(b) Onshore Purchaser.

Vendors:
(a) Offshore Vendor; and

(b) Onshore Vendor.

Guarantor: Mr. Qi, guarantor of the Vendors' obligations under the Sale and Purchase Agreement

The Onshore Purchaser is a wholly-owned subsidiary of the Company. The Company is principally engaged in the distributorships of luxury goods. The operations of the Company are mainly based in Hong Kong, the PRC and Malaysia.

Mr. Qi is the sole beneficial owner of the Vendors and is a substantial Shareholder, owning 863,088,000 Shares, representing approximately 28.96% of the total issued Shares as at the Latest Practicable Date. Mr. Qi is therefore a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules.

Assets to be acquired:

Pursuant to the Sale and Purchase Agreement:

(i) the Offshore Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, representing approximately 15.09% of total B&O Shares; and

(ii) the Onshore Vendor has conditionally agreed to sell and the Onshore Purchaser has conditionally agreed to purchase the Sale Equity, representing 49% equity interests in the PRC JV.

Given that (i) upon Completion, the Company will become a single largest shareholder of B&O, owning approximately 15.09% of total B&O Shares; and (ii) Mr. Tong, an executive Director and Chairman of the Group, is also an existing director of B&O, B&O will become an associate company of the Company upon Completion and will be accounted by way of equity accounting in the consolidated financial statements of the Company. Also, the PRC JV will become an indirect wholly-owned subsidiary of the Company upon Completion.

Consideration for the Acquisition:

The aggregate Consideration for the Acquisition shall be HK$522,633,868.65, of which:

(1) the Sale Shares Consideration shall be HK$494,145,496.35, and shall be payable by the Company; and

(2) the Sale Equity Consideration shall be HK$28,488,372.30, and shall be payable by the Onshore Purchaser.

The Consideration shall be settled by the Purchasers on the Completion Date by the Company issuing the Consideration Shares, to be credited as fully paid at the Issue Price of HK$0.45 per Consideration Share, to the Offshore Vendor.

Sale Shares Consideration

The Sale Share Consideration was arrived at based on normal commercial terms after arm's length negotiation between the Offshore Vendor and the Company, with reference to, among other things, (i) the market capitalization of B&O (i.e. the average market capitalization during the last twelve months preceding the Last Trading Day (the "**Last Twelve Months Period**"), (ii) the share price performance, liquidity and business prospects of B&O and the Company, and (iii) lock up period of the Consideration Shares.

The average value of market capitalization on B&O was approximately DKK2,904.3 million which is equivalent to approximately HK$3,389.3 million during the Last Twelve Months Period and hence the 15.09% of the average market capitalization of the B&O for the Last Twelve Months Period was equivalent to approximately DKK438.3 million or approximately HK$511.4 million. The Sale Share Consideration of approximately HK$494.1 million represents a discount of approximately 3.38% to the 15.09% of the average market capitalization of B&O for the Last Twelve Months Period.

Sale Equity Consideration

The Sale Equity Consideration was arrived at based on normal commercial terms after arm's length negotiations between the Onshore Vendor and the Company, taking into account including but not limited to (i) the net assets value of the PRC JV, (ii) the historical financial performance and the business prospects of the PRC JV, (iii) the price performance and trading volume of the Company and (iv) the lock up period of the Consideration Shares.

According to the accountant's report of the PRC JV in the Appendix III of this circular, the net assets value of the PRC JV as at 30 September 2016 was approximately RMB43.3 million which is equivalent to approximately HK$50.3 million and hence the 49% of the net assets value of the PRC JV as at 30 September 2016 is equivalent to approximately RMB21.2 million or approximately HK$24.7 million. The Sale Equity Consideration of approximately HK$28.5 million represents the premium of approximately 15.4% over the 49% of the net assets value of the PRC JV as at 30 September 2016. Taking into account, among others, (i) business prospects of the PRC JV as set out in the paragraph headed "Reasons for and the benefits of the Acquisition"; and (ii) improvement in historical financial performance attributable by an increase in revenue from the year ended 31 March 2014 to the year ended 31 March 2016 and a turnaround from net loss for the years ended 31 March 2014, 2015 and 2016 to net profit for the six months ended 30 September 2016 as detailed in the paragraph headed "Reasons for and the benefits of the Acquisition", the Directors (including independent non-executive Directors after considering the advice of the Independent Financial Adviser; and other than Mr. Tong, Mr. Zhu Lei and Mr. Qi Jian Wei who are considered to have material interest in the Acquisition, and shall abstain from giving their views (collectively, "**Interested Directors**")) consider that the Sale Equity Consideration is fair and reasonable, despite the Sale Equity Consideration is set at a premium over the net assets value of the PRC JV as at 30 September 2016.

The Directors (including independent non-executive Directors after considering the advice of the Independent Financial Adviser; and other than the Interested Directors) consider that the Consideration is fair and reasonable and in the interest of the Company and Shareholders as a whole.

Consideration Shares

Issue Price

Pursuant to the Sale and Purchase Agreement, the Consideration Shares will be issued at HK$0.45 per Share, which represents:

(i) a discount of approximately 40.79% to the closing price of HK$0.76 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 32.02% to the average closing price of HK$0.662 per Share in the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 33.53% to the average closing price of HK$0.677 per Share in the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 29.69% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 21.62% over the net asset value per Share as at 30 September 2016 of approximately HK$0.370 based on unaudited consolidated net asset value of the Group as at 30 September 2016 extracted from the interim results announcement of the Company for the six months ended 30 September 2016 and 2,979,828,850 Shares in issue as at the Latest Practicable Date.

During the Last Twelve Months Period, the lowest closing price of the Shares was HK$0.34 recorded on 2 November 2015 to 4 November 2015, 13 November 2015 to 19 November 2015 and 24 November 2015 to 25 November 2015, while the highest closing price of the Shares was HK$0.76 recorded on the Last Trading Day. The average daily closing price of the Shares during the Last Twelve Months Period is HK$0.50. The Issue Price is within the aforesaid range, and represents a discount of 10% of the daily average, of the closing price of the Shares during the Past Twelve Months Period. Also, the average trading volume of the Shares during the Last Twelve Months Period is approximately 4.5 million shares, in which the number of Consideration Shares is approximately 261 times of the average trading volume of the Shares during the Last Twelve Months Period. Given that (1) the Issue Price is within the range of the closing price of Shares during the Past Twelve Months Period, (2) daily turnover of the Shares during the Past Twelve Months Period is significantly low when compared with the number of Consideration Shares, and (3) the lock up period of the Consideration Shares of two years, the Directors are of the view that the Issue Price is fair and reasonable.

When allotted and issued at Completion, the Consideration Shares will represent approximately:

(i) 38.98% of the existing issued share capital of the Company as at the Latest Practicable Date; and

(ii) 28.04% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Issue Price has been agreed based on normal commercial terms after arm's length negotiations between the Purchasers and the Vendors after taking into account, among others, the prevailing market price and trading volume of the Shares, the financial performance of the Group, the current market conditions and the lock up period of the Consideration Shares. The aggregate nominal value of the Consideration Shares is HK$2,322,817.194.

The Consideration Shares are to be issued by the Company pursuant to the Specific Mandate. The Company will seek the grant of the Specific Mandate from the Independent Shareholders at the SGM. The Consideration Shares shall be allotted and issued at the Issue Price each, credited as fully paid and shall rank *pari passu* among themselves and with all other Shares in issue at the Completion Date.

Conditions Precedent

Completion is subject to the following conditions being fulfilled or waived:

(i) the Purchasers having received legal opinions issued by:

  (a) the Purchasers' legal advisers on Danish laws confirming that the acquisition by the Purchaser Group of the Sale Shares under the Sale and Purchase Agreement will not constitute a violation of any Danish laws and regulations, including those with respect to foreign ownership or investment in Danish enterprises and foreign exchange control; and

  (b) the Purchasers' legal advisers on PRC laws confirming that the acquisition by the Purchaser Group of the Sale Equity under the Sale and Purchase Agreement and issue of the Consideration Shares as settlement of the Sale Equity Consideration will not constitute a violation of any PRC laws and regulations, including those with respect to foreign ownership or investment in PRC enterprises and foreign exchange control;

(ii) the approval by the Shareholders and (wherever applicable) the Independent Shareholders of the Acquisition, the Sale and Purchase Agreement and the transactions contemplated hereby (including without limitation issue of the Consideration Shares) at the SGM to be convened in accordance with, and all other consents and acts required under, the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;

(iii) the Listing Committee having granted listing of and permission to deal in the Consideration Shares;

(iv) the Company having received written confirmation from the Stock Exchange (if applicable) and the SFC that they have no further comment on the announcement in respect of the transactions contemplated under the Sale and Purchase Agreement and that the announcement having been uploaded to the website of the Stock Exchange;

(v) all approvals, consents and acts (whether required under laws, codes, regulations, the Listing Rules or otherwise) for the purpose of or in connection with the Completion being obtained and completed by each of the Vendors, the Purchasers and the Company or, as the case may be, the relevant waiver from compliance with any of such provisions being obtained from the relevant authority (including without limitation the Stock Exchange);

(vi) as at the date on which the last of the outstanding Condition Precedent (other than condition precedent (vi)) shall have been fulfilled or (as applicable) waived:

(a) no indication having been received by the Company from the Stock Exchange or the SFC that Completion and the terms of and the transactions contemplated under the Sale and Purchase Agreement will lead to the listing of the Shares on the Stock Exchange to be withdrawn or to be objected to (including without limitation any declaration that the Shares will not be regarded as suitable for listing), whether or not conditions will or may be attached thereto; and

(b) no indication having been received by the Company from the Stock Exchange that the transactions contemplated under the Sale and Purchase Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a ''reverse takeover'' under the Listing Rules;

(vii) the B&O Shares remaining listed and traded on Nasdaq Copenhagen for the duration of the Pre-completion Period save for temporary suspensions of not more than 15 consecutive trading days of Nasdaq Copenhagen;

(viii) as at the date on which the last of the outstanding Condition Precedent (other than condition precedent (viii)) shall have been fulfilled or (as applicable) waived, there is no occurrence of event indicating that Completion and the terms of and the transactions contemplated under the Sale and Purchase Agreement will lead to the listing of the B&O Shares on Nasdaq Copenhagen to be withdrawn or to be cancelled;

(ix) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities in the PRC, Hong Kong, Denmark or other relevant third parties in connection with the Acquisition and all other transactions contemplated by the Sale and Purchase Agreement having been obtained; and

(x) as at the date on which the last of the outstanding condition precedent (other than this condition precedent (x)) the Purchasers being satisfied that, the Warranties remaining true and accurate and no events having occurred that would result in any breach of any such Warranties.

The Purchasers may at their sole and absolute discretion and at any time waive, by notice in writing to the Vendors and the Guarantor, the conditions precedent (i), (vii), (viii) and (x) above. Such waiver may be made subject to such terms and conditions as are determined by the Purchasers. None of the other conditions precedent set out in the Sale and Purchase Agreement may be waived by any Party unilaterally.

If any of the conditions precedent set out in the Sale and Purchase Agreement has not been satisfied (or, as the case may be, waived by the Purchasers) on or before 12:00 noon on the Long Stop Date, the Sale and Purchase Agreement shall cease and terminate (except that the provisions in relation to, among others, confidentiality, costs and expenses, notice and governing law, jurisdiction and process agent which shall remain in full force and effect) and none of the Parties shall have any obligations and liabilities save for any antecedent breaches of terms thereof.

Reference is made to conditions precedents (v) and (ix). Based on preliminary legal advice received by the Company, in respect of the sale and purchase of the Sale Equity, approval from the Ministry of Commerce of the PRC government is required. In respect of the sale and purchase of the Sale Shares, no approval, consent and/or waiver from any Danish governmental or regulatory authorities is required.

As at the Latest Practicable Date, the Company has already received a written confirmation from the Stock Exchange that the Acquisition is not a "reverse takeover" under the Listing Rules. No other condition precedent has been fulfilled or waived and the Company and the Onshore Purchaser do not have any intentions to waive any of the conditions precedent.

Completion

Subject to the continuous fulfillment of the conditions precedent set out in the Sale and Purchase Agreement up to the Completion Date, Completion shall take place on the Completion Date.

Lock-up of the Consideration Shares

Pursuant to the Sale and Purchase Agreement, the Offshore Vendor undertakes to the Company that unless with the prior written approval of the Company, the Offshore Vendor shall not sell, transfer, or otherwise dispose of (or enter into any agreement to dispose of), any of the Consideration Shares or any interest therein, and shall not permit the registered holder of the Consideration Shares to sell, transfer or otherwise dispose of (or enter into any agreement to dispose of) any of the Offshore Vendor's direct or indirect interests in the Consideration Shares for a period of twenty-four (24) months after the Completion Date ("**Lock-up Undertaking**").

However, the Lock-up Undertaking shall not apply to the creation by the Offshore Vendor of any mortgage, charge, pledge, lien or other encumbrances on the Consideration Shares in favour of a qualified lender (as defined under section 308 of the SFO) for a bona fide commercial loan (including a loan to be used in connection with the Offer) or any sale, transfer or otherwise dispose of the Consideration Shares pursuant to an exercise of power of sale contained in such mortgage, charge, pledge, lien or other encumbrances.

INFORMATION OF ASSETS TO BE ACQUIRED

B&O

B&O, a company incorporated in Denmark whose shares are listed and traded on Nasdaq Copenhagen, is the manufacturer of the "Bang & Olufsen" and "B&O PLAY" branded audio and visual consumer electronics products. The Group is one of the distributors for "B&O PLAY" products in the PRC. As at the Latest Practicable Date, Mr. Tong Kai Lap ("**Mr. Tong**"), executive Director and Chairman of the Group, is a director of B&O.

As at the Latest Practicable Date, through the Offshore Vendor and other entities controlled by Mr. Qi, Mr. Qi indirectly owns 8,923,544 B&O Shares, constituting approximately 20.66% of the total B&O Shares. Mr. Qi is the single largest shareholder of B&O as at the Latest Practicable Date. Upon Completion, Mr. Qi will remain indirectly interested in 2,404,186 B&O Shares, representing approximately 5.57% of the total B&O Shares.

Set out below is certain selected financial information of B&O extracted from the annual reports of B&O for each of the three financial years ended 31 May 2014, 2015 and 2016 and unaudited interim report of B&O for the three months ended 31 August 2016, which have been prepared in accordance with International Financial Reporting Standards (the "**IFRS**"), generally accepted accounting standards in European Union:

	For the years ended 31 May			For the three months ended 31 August
	2014	**2015**	**2016**	**2016**
	million (audited)	*million* (audited)	*million* (audited)	*million* (unaudited)
Net loss before taxation	DKK(286.4) or about HK$(334.2)	DKK(802.7) or about HK$(936.8)	DKK(241.6) or about HK$(281.9)	DKK(87.3) or about HK$(101.9)
Net loss after taxation (excluding the discontinued operations)	DKK(227.6) or about HK$(265.6)	DKK(607.3) or about HK$(708.7)	DKK(197.8) or about HK$(230.8)	DKK(66.5) or about HK$(77.6)

	As at 31 May			As at 31 August
	2014	**2015**	**2016**	**2016**
	million	*million*	*million*	*million*
	(audited)	(audited)	(audited)	(unaudited)
Net asset value	DKK1,604.4 or about HK$1,872.3	DKK1,921.4 or about HK$2,242.3	DKK1,724.9 or about HK$2,013.0	DKK1,654.9 or about HK$1,931.3

PRC JV

The PRC JV is an equity joint venture formed by the Company and the Onshore Vendor.

The Onshore Vendor and the Company (through its several subsidiaries) owns 49% and 51% of the paid up capital in the PRC JV respectively. The PRC JV is a non-exclusive retailer of "B&O PLAY" branded audio and visual consumer electronics products in the PRC. As at the Latest Practicable Date, the paid-up capital of the PRC JV was RMB50,000,000.

	For the years ended 31 March			For the six months ended 30 September
	2014	**2015**	**2016**	**2016**
	'000	*'000*	*'000*	*'000*
	(audited)	(audited)	(audited)	(audited)
Net (loss)/profit before taxation	RMB(2,703) or about HK$(3,143)	RMB(3,908) or about HK$(4,544)	RMB(690) or about HK$(802)	RMB677 or about HK$787
Net (loss)/profit after taxation	RMB(2,703) or about HK$(3,143)	RMB(3,908) or about HK$(4,544)	RMB(690) or about HK$(802)	RMB677 or about HK$787

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	'000	*'000*	*'000*	*'000*
	(audited)	(audited)	(audited)	(audited)
Net asset value	RMB47,191 or about HK$54,873	RMB43,283 or about HK$50,329	RMB42,593 or about HK$49,527	RMB43,270 or about HK$50,314

APPLICATION FOR LISTING

An application will be made to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and before the Offer (assuming there will be no other changes to the shareholding structure of the Company from the Latest Practicable Date to the Completion Date and before the Offer):

Shareholders	**As at the Latest Practicable Date**		**Immediately after Completion and before the Offer**	
	Number of Shares	*%*	*Number of Shares*	*%*
The Offeror, Mr. Qi and parties acting in concert with any of them:				
The Offeror	855,864,000	28.72	2,017,272,597	48.71
Mr. Qi	7,224,000	0.24	7,224,000	0.17
Kingston Securities and its associates	2,992,000	0.10	2,992,000	0.07
Sub-total	**866,080,000**	**29.06**	**2,027,488,597**	**48.95**
Directors				
Mr. Tong *(Note 2)*	20,034,400	0.67	20,034,400	0.48
Zheng Hao Jiang	10,640,000	0.36	10,640,000	0.26
Choy Sze Chung, Jojo	1,000,000	0.03	1,000,000	0.02
Lee Thomas Kang Bor	1,256,000	0.04	1,256,000	0.03
Substantial Shareholder:				
Wang Qiang ("**Mr. Wang**") *(Note1)*	328,094,000	11.01	–	–
Public				
Mr. Wang *(Note 1)*	–	–	328,094,000	7.92
Other public shareholders	1,752,724,450	58.83	1,752,724,450	42.34
Total	**2,979,828,850**	**100.00**	**4,141,237,447**	**100.00**

Notes:

1. Mr. Wang holds 309,112,000 Shares through Street Smart Properties Limited which was wholly-owned by Mr. Wang as at the Latest Practicable Date. Save as disclosed in the above shareholding structure, Mr. Wang has no other relationship with the Company and the assets to be acquired under the Acquisitions. Assuming that Mr. Wang does not buy additional or dispose of his shareholding in the Company before the Completion, Mr. Wang's shareholding will be regarded as shares held by the public upon Completion.

2. Mr. Tong, an executive Director and Chairman of the Group, is also an existing director of B&O. He directly holds 9,760,000 Shares and 10,274,400 Shares are held by Rapid Alert International Limited, a company controlled by a discretionary trust of which Mr. Tong is the founder. Therefore, he holds 20,034,400 Shares, representing approximately 0.67% of interest in Shares as at the Latest Practicable Date.

EFFECT OF THE ACQUISITION ON THE ASSETS AND LIABILITIES OF THE GROUP

Assets and liabilities

Upon Completion, B&O will become an associate company of the Company and will be accounted by way of equity accounting in the consolidated financial statements of the Company. Also, the PRC JV will change from an indirect non-wholly owned subsidiary to an indirectly wholly-owned subsidiary of the Company and the PRC JV's assets and liabilities as well as its financial results will remain consolidated in the financial statements of the Company. Further information relating to the financial impact of the Acquisition is disclosed in the section headed "Unaudited Pro Forma Financial Information of the Group" contained in Appendix IV to this circular.

As at 30 September 2016, the Company had total assets of approximately HK$1,575 million and total liabilities of approximately HK$473.3 million. Based on (i) the total assets and liabilities of the Company as at 30 September 2016, and (ii) the total assets and liabilities of the PRC JV as at 30 September 2016, upon the Completion the Sale Shares will be recognized as "investment in an associate" on the consolidated statement of financial position of the Group. The unaudited pro forma total assets of the Group will increase by approximately HK$724.7 million to approximately HK$2,300 million and the unaudited pro forma total liabilities of the Group will remain unchanged as indicated in the unaudited pro forma statement of assets and liabilities of the Group contained in Appendix IV to this circular.

Earnings

Based on the audited consolidated profit and loss statement of B&O for the three years ended 31 May 2014, 2015 and 2016 as set out in Appendix II to this circular, the consolidated revenue of B&O was approximately DKK2,161,7 million, DKK2,356.5 million and DKK2,633.4 million respectively, and the net loss after tax of continuing operation of B&O was approximately DKK227.6 million, DKK607.3 million and DKK197.8 million respectively. Upon Completion, the Directors are of the view that there will be no immediate material impact on earnings of the Group.

INFORMATION OF THE VENDORS

Mr. Qi, a substantial shareholder of the Company, is the sole beneficial owner of the Vendors.

The Offshore Vendor is a company incorporated in the British Virgin Islands. Through the Offshore Vendor and other entities controlled by him, Mr. Qi indirectly owns 8,923,544 B&O Shares, constituting about 20.66% of the total B&O Shares. The original purchase cost of the Sale Shares was DKK503,350,846.

The Onshore Vendor is a company established in the PRC with limited liability. Through the Onshore Vendor, Mr. Qi indirectly owns the Sale Equity, being 49% of the entire paid up capital in the PRC JV. The original purchase cost of the Sale Equity was RMB24.5 million.

REASONS FOR AND THE BENEFITS OF THE ACQUISITION

The Group is principally engaged in distributorships of luxury goods. The Group is a distributor for "B&O PLAY" products in the PRC. According to the 2016 Annual Report of the Company, the 2016 sales performance of the business division named "others" performed satisfactorily with revenue increased by approximately 75.7% from HK$40.3 million for the year ended 31 March 2015 to HK$70.8 million for the year ended 31 March 2016. Revenue attributable to "B&O PLAY" products increased from approximately HK$28.6 million for the year ended 31 March 2015 to approximately HK$49.3 million for the year ended 31 March 2016. The product categories under such business division include fine wine, audio equipment, menswear apparel and accessories and cigars and smoker's accessories. Among those products, B&O performed the best in terms of revenue contribution, particularly attributable to e-commerce sales of "B&O PLAY". It is the intention of the Company to continue to strengthen and expand such business with a view to further enhancing the growth of the Group and creating value for Shareholders.

The Board (including independent non-executive Directors after considering the advice of the Independent Financial Adviser; and other than the Interested Directors) are of the view that the Acquisition is in line with the Group's business strategy and considers that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the following reasons:

(a) Enable the Group to take the advantages over strategic collaboration with B&O through the acquisition of Sale Shares

B&O is the manufacturer of the "Bang & Olufsen" and "B&O PLAY" branded audio and visual consumer electronics products and whose shares are listed and traded on Nasdaq Copenhagen. The Group has been distributor for certain products of B&O for about 3.5 years. Upon Completion, the Company will own approximately 15.09% of total B&O Shares and become the single largest shareholder of B&O. Accordingly, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser; and other than the Interested Directors) are of the view that the acquisition of the Sale Shares presents a unique and good opportunity for the Group to establish a further closer partnership with a well-known manufacturer of luxury goods, in pursuing an all-embracing strategic collaboration in areas such as strategic planning and marketing. Such strategic collaboration is in line with its existing business and will enable the Group to enhance its business growth in distributing products produced by B&O through its networks in the PRC, especially e-commerce.

(b) Capture the opportunity arising from potential business growth in B&O products in the PRC through acquisition of the Sale Equity

The PRC JV is a non-exclusive retailer of "B&O PLAY" branded audio and visual consumer electronics products in the PRC. PRC JV recorded a strong growth in revenue for the year ended 31 March 2016, being an approximately 70% increase compared with the previous year, and made a turnaround from net loss to net profit from 2015 to 2016 as well. As at the Latest Practicable Date, the PRC JV is owned as to 51% by the Onshore Purchaser and as 49% by the Onshore Vendor. Upon Completion, the PRC JV will become the indirectly wholly-owned subsidiary of the Company. Therefore, the Company is confident that the acquisition of the Sale Equity will allow the Group to capture the opportunities arising from the potential business growth in B&O products in the PRC.

In view of the abovementioned reasons, the Directors (including independent non-executive Directors after considering the advice of the Independent Financial Adviser; and other than the Interested Directors) are of the view that the Acquisition is in line with the business strategy of the Group and the Acquisition is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the Vendors are wholly-owned by Mr. Qi, who is also a substantial Shareholder and is interested in 863,088,000 Shares, representing approximately 28.96% of the total issued share capital of the Company as at the Latest Practicable Date, thus the Vendors are connected persons of the Company under the Listing Rules and the Acquisition contemplated under the Sale and Purchase Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios in respect of the Acquisition exceeds exceeded 25% but less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore is subject to reporting, announcement and Independent Shareholders' approval by way of poll requirements under Chapter 14 of the Listing Rules.

Mr. Tong, an executive Director and Chairman of the Group, is a director of B&O. He also directly holds 9,760,000 Shares and 10,274,400 Shares are held by Rapid Alert International Limited, a company controlled by a discretionary trust of which Mr. Tong is the founder. Therefore, he holds 20,034,400 Shares, representing approximately 0.67% of interest in Shares as at the Latest Practicable Date.

Mr. Gao Yu, a non-executive Director of the Group, also holds 26,000 shares in B&O, approximately 0.06% of the issued share capital of B&O. Although Mr. Gao Yu is a shareholder of B&O, he is not considered to have material interest in the Acquisition because the success of the Acquisition is not expected to have impact on the value of his investment in the B&O shares.

Kingston Securities, which will make the Offer on behalf of the Offeror subject to Completion, together with its associates hold 2,992,000 Shares (or approximately 0.10% of the issued share capital of the Company) as at the Latest Practicable Date.

At the Board meeting convened to approve the Sale and Purchase Agreement, Mr. Tong was considered to have a material interest in the Acquisition by virtue of his directorship in B&O. Mr. Zhu Lei, an executive Director, is the brother-in-law of Mr. Qi. Mr. Qi Jian Wei, a non- executive Director, is the elder brother of Mr. Qi. Accordingly, each of Mr. Zhu Lei and Mr. Qi Jian Wei was considered to have a material interest in the Acquisition by virtue of their relationship with Mr. Qi. In view of their above material interest in the Acquisition, each of Mr. Tong, Mr. Zhu Lei, and Mr. Qi Jian Wei have abstained from voting on the board resolution(s) of the Company approving the Acquisition as contemplated under the Sale and Purchase Agreement.

At the SGM, any Shareholders with a material interest in the Acquisition are required to abstain from voting in respect of the resolution(s) approving the Acquisition. Each of Mr. Tong, Mr. Qi and their respective associates will abstain from voting in respect of the resolution(s) approving the Acquisition at the SGM.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular the consolidated financial statements of B&O and its subsidiaries ("**B&O Group**") and an accountants' report (the "**Required Accountants' Report**") on such in accordance with Chapter 4 of the Listing Rules. The consolidated financial statements on which such accountants' report is based must relate to a financial period ended 6 months or less before this circular is issued, and the financial information of B&O Group must be prepared using accounting policies which should be materially consistent with those of the Company. In this regard, the Company is required under Chapter 4 of the Listing Rules to include an accountants' report on the consolidated financial statements of the B&O Group for the three financial years ended 31 March 2016 and for the six months ended 30 September 2016 prepared under Hong Kong Financial Reporting Standards (the "**HKFRS**"), which is consistent with the accounting standards as used by the Company for its regular financial reports.

The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with the requirements of Rule 14.67(6)(a)(i) of the Listing Rules in this circular.

Reasons for the Application

(a) B&O is a company incorporated in Denmark whose shares are listed and traded on Nasdaq Copenhagen. B&O published financial statements on a yearly basis and has published its consolidated financial statements for each of the three financial years ended 31 May 2016, with unmodified auditors' opinions from the auditors, Ernst & Young Godkendt Revisionspartnerselskab, being a Danish member firm of Ernst & Young Global Limited, which is one of the big four international professional accounting services firms and the consolidated financial statements were prepared in accordance with the IFRS, as adopted by the European Union, which is one of the acceptable standards for the accountants' report under Chapter 4 of the Listing Rules. In view of the HKFRS has been fully converged with the IFRS in all material aspects, the granting of the waiver would unlikely result in any undue risk to the Shareholders;

(b) The acquisition of approximately 15.09% of total B&O Shares under the Acquisition was a transaction between the Company and the Offshore Vendor. B&O Group is not a party in the transaction and therefore B&O is not under any contractual obligation to grant the Company the access to its books and records;

(c) The Company had requested B&O to assist in the preparation of the accountants' report. However, given that B&O, as a listed company on NASDAQ Copenhagen, is already publishing its annual financial statements as well as certain other financial information on a regular basis in accordance with the regulatory requirements in Denmark, B&O had declined the request of the Company. In that regard, the Company had no access to the books and records of B&O to prepare an accountants' report on B&O;

(d) B&O would not become a subsidiary of the Company as a result of the Acquisition;

(e) Given that B&O's latest published audited financial statements was for the financial year ended 31 May 2016 ("**2015/2016 Annual Report**") and the date of this circular is 25 November 2016, the 2015/2016 Annual Report relates to a period of 6 months or less before the date of this circular; and

(f) The Shareholders can easily access the business activities and financial positions of B&O Group from those published statements with the similar accounting standards with the Company. Such financial disclosures are prepared in accordance with the IFRS as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Alternative Disclosure

In place of the Required Accountants' Report to be prepared in accordance with Chapter 4 of the Listing Rules, the following disclosure has been included in this circular:

(a) the already published audited consolidated financial statements of B&O Group for the three financial years ended 31 May 2016 prepared in accordance with the IFRS as adopted by the European Union and which were audited by Ernst & Young Godkendt Revisionspartnerselskab and the unaudited consolidated financial statements of B&O Group for the three months ended 31 August 2016 which were prepared in accordance with the IAS34 "Interim Financial Reporting" as adopted by the European Union and in accordance with applicable rules and regulations issued by NASDAQ Copenhagen or other relevant bodies; and

(b) a disclosure stating that the Company has engaged its auditor, BDO Limited, to review and confirm that there would be no material change to the published financial statements of B&O had they been prepared in accordance with the accounting policies adopted by the Company which conform with the HKFRS, and that there is no material difference between the accounting standards adopted by the Company and B&O.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE CONSIDERATION SHARES

As the Consideration will be satisfied by way of the Company issuing the Consideration Shares, the Company will seek the grant of the Specific Mandate from the Independent Shareholders at the SGM. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects with all the Shares then in issue. Upon the Completion, the Offeror and Mr Qi will become the controlling Shareholders.

POSSIBLE MANDATORY CONDITIONAL CASH OFFER

As at the Latest Practicable Date, and taking into account of: (a) 855,864,000 Shares and 7,224,000 Shares respectively held by the Offeror and Mr. Qi; and (b) 2,992,000 Shares held by Kingston Securities (which will be making the Offer on behalf of the Offeror) and its associates, the Offeror, Mr. Qi and parties acting in concert with any of them effectively held 866,080,000 Shares, representing approximately 29.06% of the total issued share capital of the Company.

Immediately upon the Completion, 1,161,408,597 Consideration Shares will be issued to the Offshore Vendor which is wholly-owned by Mr. Qi, and the interests of the Offeror, Mr. Qi and parties acting in concert with any of them in the total issued share capital of the Company will be increased from approximately 29.06% to approximately 48.95% (assuming that no additional Shares other than the Consideration Shares will be issued since the date of the Sale and Purchase Agreement up to the Completion).

Subject to Completion, the Offeror will be required under Rule 26.1 of the Takeovers Code to make a mandatory conditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and Mr. Qi). Pursuant to rule 26.2 of the Takeovers Code, the Offer is conditional upon the Offeror having received acceptances in respect of voting rights which, together with voting rights acquired or agreed to be acquired before or during the Offer, will result in the Offeror, Mr. Qi and parties acting in concert with any of them holding more than 50% of the voting rights.

As at the Latest Practicable Date, the Company has 2,979,828,850 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares, as at the Latest Practicable Date.

SGM

The SGM will be held at 4:30 p.m. on 13 December 2016 at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the purpose of approving, among other matters, the Sale and Purchase Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate by way of poll.

At the SGM, any Shareholders with a material interest in the Acquisition are required to abstain from voting in respect of the resolution(s) approving the Acquisition. As Mr. Tong was considered to have a material interest in the Acquisition by virtue of his directorship in B&O and Mr. Qi has material interest in the Acquisition and is a party to the Sale and Purchase Agreement, each of Mr. Tong, Mr.Qi and their associates shall abstain from voting at the SGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the accompanying form of proxy in accordance with the instructions printed on it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time fixed for holding the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude the Shareholders from attending, and voting at, the SGM or any adjournment thereof if the Shareholders so wish.

An announcement will be made by the Company after the SGM regarding the results of the SGM pursuant to the requirements of the Listing Rules.

As completion of the Sale and Purchase Agreement and the transactions contemplated thereunder is subject to the satisfaction of the conditions precedent, the transaction may or may not be completed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of the Shareholders to attend and vote at the SGM (or at any adjournment thereof), the Company's register of members will be closed from Monday, 12 December 2016 to Tuesday, 13 December 2016 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 9 December 2016.

RECOMMENDATIONS

The Listing Rules Independent Board Committee comprising all the independent non-executive Directors who are not interested in the Acquisition, namely Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor, has been established to consider, and advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole and how to vote on the resolution(s) regarding the Sale and Purchase Agreement at the SGM.

The Directors (other than the Interested Directors) consider that the Sale and Purchase Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate are fair and reasonable and in the interest of the Company and the Shareholders a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate. Your attention is drawn to the letter from the Listing Rules Independent Board Committee set out on page 27 to 28 of this circular and the letter of advice from the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Independent Shareholders in connection with the terms of the Acquisition and the principal factors and reasons considered by them in arriving at such advice set out on pages 29 to 58 of this circular. You are advised to read these letters carefully before deciding how to vote on the resolution to be proposed at the SGM to approve the Acquisition.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

Yours faithfully,
By order of the Board
Sparkle Roll Group Limited
Tong Kai Lap
Chairman

Sparkle Roll Group Limited
耀萊集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 970)

25 November 2016

To the Independent Shareholders

Dear Sirs

(1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF APPROXIMATELY 15.09% SHAREHOLDING IN BANG & OLUFSEN A/S AND 49% EQUITY INTERESTS IN BALANORM BEO (BEIJING) TRADING DEVELOPMENT LIMITED*; AND (2) PROPOSED GRANT OF SPECIFIC MANDATE OF THE COMPANY TO ALLOT AND ISSUE THE CONSIDERATION SHARES

We refer to the circular issued by the Company to the Shareholders dated 25 November 2016 ("**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider whether the terms of the Acquisition and the grant of the Specific Mandate are fair and reasonable so far as the Independent Shareholders are concerned. TC Capital has been appointed as Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board which contains, *inter alia*, information about the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder, and the letter from TC Capital set out in the Circular which contains, *inter alia*, information about the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder together with the principal factors taken into consideration in arriving at its opinion.

Having considered the terms of the Sale and Purchase Agreement, and taking into account the principal factors and reasons considered by, and the advice of TC Capital set out in its letter of advice, we consider that (i) the entering into the Sale and Purchase Agreement and the transactions contemplated thereunder are in the ordinary course of business of the Company and on normal commercial terms, (ii) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable in so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iii) the Specific Mandate are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Acquisition at the SGM.

Yours faithfully,
For and on behalf of the
Listing Rules Independent Board Committee
Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor
Independent non-executive Directors

Set out below is the text of a letter received from TC Capital, the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, prepared for the purpose of inclusion in this circular:



25 November 2016

The Listing Rules Independent Board Committee and the Independent Shareholders

Sparkle Roll Group Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF APPROXIMATELY 15.09% SHAREHOLDING IN BANG & OLUFSEN A/S AND 49% EQUITY INTERESTS IN BALANORM BEO (BEIJING) TRADING DEVELOPMENT LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Listing Rules Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder including the grant of the specific mandate and the allotment and issue of the Consideration Shares (collectively, the "**Transaction**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 25 November 2016 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 20 October 2016, the Company and Sparkle Roll Xin Tian Di Commerce Development Limited, which is a direct wholly-owned subsidiary of the Company (the "**Onshore Purchaser**") (collectively, the "**Purchasers**"), entered into the Sale and Purchase Agreement with Sparkle Roll Holdings Limited (the "**Offshore Vendor**"), Beijing Sparkle Roll Investment Limited (the "**Onshore Vendor**") (collectively, the "**Vendors**") and Mr. Qi (the "**Guarantor**"), pursuant to which the Company conditionally agreed to buy and the Offshore Vendor conditionally agreed to sell a total of 6,519,358 B&O Shares (the "**Sale Shares**") at the consideration of

HK$494,145,496.35 and the Onshore Purchaser agreed to buy and the Onshore Vendor conditionally agreed to sell 49% of the equity interests in Balanorm Beo (Beijing) Trading Development Limited (the "**PRC JV**") (the "**Sale Equity**") at the consideration of HK$28,488,372.30. The Consideration will be settled by the issue and allotment of the ordinary shares of the Company (the "**Consideration Shares**") at the issue price of HK$0.45 (the "**Issue Price**") to the Offshore Vendor under the Specific Mandate.

The Listing Rules Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor, has been established to advise the Independent Shareholders as to (i) whether the Transaction is in the ordinary and usual course of the business of the Group; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole; and (iii) whether the terms of the Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Our role as the Independent Financial Adviser is to provide independent opinion and recommendation to the Listing Rules Independent Board Committee and Independent Shareholders in this regard and as to whether the Independent Shareholders should vote in favour of the Transaction at the SGM.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Sale and Purchase Agreement; (ii) the annual report of the Company for the year ended 31 March 2016 (the "**2016 Annual Report**"); (iii) the annual report of B&O for the year ended 31 May 2016 (the "**2016 B&O Annual Report**"); (iv) the interim report of B&O for Q1 2016/17 (the "**2017 Q1 B&O Report**"); (v) the accountants' report of the PRC JV for each of the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016 (the "**PRC JV's Accountants' Report**"); and (vi) other information as set out in the Circular. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company. The opinion regarding Bang & Olufsen A/S is derived from after discussion with the management of the Company and considering other publicly available information.

We have assumed that all such information, opinions, facts and representations, for which the Company, the Directors and the management of the Company are fully responsible, were true, accurate and complete in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out independent verification of the information, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of each of the Company, the Onshore Purchaser, the Offshore Vendor, the Onshore Vendor, B&O and the PRC JV and any of their respective subsidiaries and associates.

We, TC Capital International Limited, are independent of and not connected with any members of the Group or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Sale and Purchase Agreement and we did not act as independent financial adviser to the Company's other transactions in the last two years.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Sale and Purchase Agreement, we have taken into consideration the following principal factors and reasons:

I. BACKGROUND OF AND REASONS FOR ENTERING INTO OF THE SALE AND PURCHASE AGREEMENT

1. Background information of the Company, the Onshore Purchaser, the Vendors, B&O and the PRC JV

a) The Company

The Company and its subsidiaries are principally engaged in distributorship of luxury goods and the operations of the Group are mainly based in Hong Kong, the PRC and Malaysia. According to the 2016 Annual Report, sales of automobiles was the major operating segment of the Group and contributed approximately 91.7% of the total revenue of the Group for the year ended 31 March 2016. The automobiles which the Group distributed were luxury brands such as Bentley, Lamborghini and Rolls-Royce. The Group also engaged in distributing the branded watches, jewelleries, wines, audio equipment, menswear apparels, accessories, cigars and smoker's accessories. As stated in the 2016 Annual Report, the revenue of the Group was mainly generated from the operation in the PRC and Hong Kong which contributed approximately 94.9% of the total revenue.

b) The Onshore Purchaser

Sparkle Roll Xin Tian Di Commerce Development Limited is a company incorporated in the PRC with limited liability and is indirectly wholly-owned by the Company and is principally engaged in property investment for rental purpose and is holding 51.0% of the PRC JV as at the Latest Practicable Date.

c) The Vendors

The Offshore Vendor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Onshore Vendor is a company incorporated in the PRC with limited liability and is principally engaged in investment holding and is holding 49.0% of the PRC JV as at the Latest Practicable Date. Both Offshore Vendor and Onshore Vendor are wholly-owned by Mr. Qi.

d) B&O

B&O, a company incorporated in Denmark whose shares are listed and traded on Nasdaq Copenhagen, is the manufacturer of the "Bang & Olufsen" and "B&O PLAY" branded audio and visual consumer electronics products. According to the 2016 B&O Annual Report, B&O was founded in 1925 with its products are currently sold in more than 70 countries. B&O have been recongised as expertise of sound and acoustics, design, and craftsmanship, as well as system integration. B&O operates within two business segments namely Bang & Olufsen and B&O PLAY. Bang & Olufsen segment comprise audio and video products sold exclusively in Bang & Olufsen stores while B&O PLAY delivers headphones and portable audio systems distributed through Bang & Olufsen stores and third party retailers as well as online sales.

e) The PRC JV

The PRC JV is a joint venture formed in January 2013 in the PRC with limited liability. The PRC JV is a non-exclusive retailer of B&O PLAY branded audio and visual consumer electronics products in the PRC. As at the Latest Practicable Date, the issued share capital of the PRC JV is RMB50,000,000 and the Onshore Vendor and the Onshore Purchaser owns 49% and 51% of the paid up capital in the PRC JV respectively.

Based on the above background information of the Company, B&O and the PRC JV, since the Group is principally engaged in the distributorship of luxury goods including audio equipment, we are of the view that the Company's acquisitions of the Sale Shares of B&O which is principally engaged in the manufacturing and distributing of audio and visual consumer electronics products worldwide and of the Sale Equity of the PRC JV which is principally engaged in the distributorship of "B&O PLAY" branded audio and visual consumer electronics products in the PRC, are therefore in the ordinary and usual course of the business of the Group.

2. Reasons for entering into the Sale and Purchase Agreement

As set out in the Letter from the Board, the Board is of the view that the Acquisition is in line with the Group's business strategy and in the interests of the Company and the Shareholders as a whole because the Acquisition enable the Group to (i) take advantages over strategic collaboration with B&O and (ii) capture the opportunity arising from potential business growth in B&O products in the PRC. As set out in below analysis, we concur with the Board's view in this regard. In addition, we are also of the view that the Group will be potentially benefited from the Acquisition through the (i) improving financial performance of B&O and the strong market outlook of the wireless audio market and (ii) the business diversification, and is therefore in the interests of the Company and the Shareholders as a whole.

(i) Take advantages over strategic collaboration with B&O through the acquisition of Sale Shares

As set out in the Letter from the Board, the Company will own approximately 15.09% of the total issued shares of B&O and will become the single largest shareholder of B&O upon Completion. According to the announcement of B&O published in the website of Nasdaq on 14 September 2016, Mr. Tong, who is the chairman and executive director of the Company, was appointed as the director of B&O.

We are of the view that, the combination of being the single largest shareholder of B&O and the appointment of Mr. Tong as a member of the board of B&O shall benefit to B&O itself as well as the Company especially the overall strategy in the expansion of "B&O PLAY" branded products, subject to Danish listing rules and regulation and internal regulation of B&O, and may therefore affect the operation and financial performance of the PRC JV. We believe that such closer relationship between the Company and B&O will be advantageous to both B&O's and the PRC JV's business development given more instant and direct communication between B&O and

the PRC JV will be allowed, subject to Danish listing rules and regulation and internal regulation of B&O. We have also examined Mr. Tong's experience in the luxury goods market by referring to the 2016 Annual Report and noted that he has joined the Company for over 14 years. Therefore, we are of the view that Mr. Tong has extensive experience in luxury goods industry. Based on the foregoing, we concur with the Board's view that, by the acquisition of Sale Shares, the Group can effectively establish a closer partnership with B&O in pursuing an all-embracing strategic collaboration and the Company and the Shareholders will ultimately benefit from such acquisition through the return from the investment in B&O and the business growth of the PRC JV, which will become an indirectly wholly-owned subsidiary of the Company upon Completion.

(ii) Potential benefit from the improving financial performance of B&O and the strong market outlook of the wireless audio market

As stated above, upon Completion, the Company will become the single largest shareholder of B&O and therefore shall be directly affected by B&O's operating and financial performance in future. B&O is the Danish based manufacturer of audio and visual consumer electronics products. Set out below is the financial highlight of B&O as extracted from the 2016 B&O Annual Report and the 2017 Q1 B&O Report prepared in accordance with International Financial Reporting Standard:

	For the year ended 31 May 2015 *(DKK million)*	**For the year ended 31 May 2016** *(DKK million)*	**For the three months ended 31 August 2015** *(DKK million)*	**For the three months ended 31 August 2016** *(DKK million)*
Total assets	3,449	2,832	N/A*	N/A*
Net asset value	1,921	1,725	N/A*	N/A*
Revenue	2,357	2,633	506	516
Gross profit	580	952	153	172
Profit/(loss) for the year/period	57	(208)	(86)	(67)
(Loss)/profit for the year/period -continuing operation	(607)	(198)	(92)	(67)

Source: The 2016 B&O Annual Report and the 2017 Q1 B&O Report

* *Such information are not available in the 2017 Q1 B&O Report*

We noted from the above table that B&O's financial performance was improving historically. The revenue of B&O for the year ended 31 May 2016 increased by approximately 11.8% compared to that for the prior year mainly due to the contribution from the product line of B&O PLAY which grew strongly at approximately 58% driven by (i) the new and innovative products launched; (ii) sales of Beoplay H8, Beoplay A2 and Beolit 15; and (iii) the expansion of the distribution channels through third party channels and e-commerce. The gross profit of B&O for the same year also increased by approximately 64.1% compared to that for the prior year mainly due to contribution of both Bang & Olufsen and B&O PLAY segment. The gross profit margin of Bang & Olufsen segment increased from approximately 35% to 39 % which was mainly due to the product restructuring and the launch of Beo Lab 90 as the speaker category command a higher margin than other products. The gross profit margin of B&O PLAY segment also increased from approximately 30% to 32% due to higher volumes of shipment and improvement of supply chain. As a result, the net loss position for the continuing business of B&O was improved from approximately DKK 607 million for the year ended 31 May 2015 to approximately DKK 198 million for the year ended 31 May 2016.

The revenue, gross profit and net loss position of B&O was kept improving for the three months ended 31 August 2016 compared to that for the prior period. Revenue of B&O for the three months ended 31 August 2016 increased by approximately 2.0% compared to that for the prior period mainly due to contribution from the product line of B&O PLAY because of its newly introduced products such as Beoplay A1 and Beoplay H5 as well as continued expansion of the distribution channels. Gross profit for the same period was increased by approximately 3.3% when comparing to the prior period mainly due to the increase in sales of products from B&O PLAY segment, which its gross profit margin increased from approximately 26.1% to approximately 33.6% driven by higher volumes of shipment and continued supply chain optimisations. As a result, the loss position for the continuing business of B&O was further improved from approximately DKK 92 million for the three months ended 31 August 2015 to approximately DKK 67 million for the three months ended 31 August 2016.

In addition to the historical improvement in the financial results of B&O as discussed above, we are also of the view that the financial performance of B&O shall grow along with the wireless audio market in future given one of its key innovative products fueling the historical growth of B&O was the wireless audio products as stated in the 2016 B&O Annual Report and the 2017 Q1 B&O Report.

According to an article headlined "Wireless Audio Market Growth Forecast at 23.2% CAGR to 2020" published on 29 April 2016 (the "**1st Article**") by PR Newswire, a global provider of multimedia platforms and distribution, based on the research report headed "Wireless Audio Market by Product (Soundbar, Speaker, Headphones, Headset), Technology (Bluetooth, Wi-Fi, Sonos, AirPlay), Application (Home Audio, Consumer, Automotive, Commercial) and Geography – Global Forecast to 2022" published on 26 April 2016 by Rnrmarketresearch.com, an online database of market research reports, the wireless audio market is expected to grow at a CAGR of 23.2% between 2016 and 2022 with the segment of consumer application is forecast to rise at a highest CAGR during the forecast period. The 1st Article reported that there is an increasing demand for wireless audio products such as wireless headsets, headphones, speakers, and sound bars because of (i) the growth of the market for smartphones, computers, and tablets, which are equipped with inbuilt Bluetooth and Wi-Fi connectivity, (ii) rise in the adoption of portable devices, (iii) high expenditure on R&D for wireless audio technology by OEMs, (iv) advancements in technologies, and (v) growing demand for infotainment services.

Furthermore, according to another article headlined "Global Bluetooth Speaker Market to Grow at a CAGR of 33% Through 2020, Reports Technavio" published on 12 August 2016 (the "**2nd Article**") by Business Wire, a press release distributor, based on the research headed "Global Bluetooth Speaker Market 2016-2020" published on 25 July 2016 by Technavio, a market research company focuses on emerging market trends, the global market for Bluetooth speakers will grow profoundly at a CAGR of almost 33% by 2020 in terms of revenue due to (i) the portability and convenience of operating speakers wirelessly via devices such as mobile, smartphones, and laptops, (ii) growing popularity of multi-room streaming, (iii) high R&D investment by various market players, (iv) advent of cloud hosted music streaming services and (v) increasing adoption of e-commerce platforms.

Based on the expected growth of wireless audio market as identified in the aforesaid 1st Article and 2nd Article, we are of the view that the outlook of B&O, which is one of the leading players in the audio and visual consumer electronics products market, shall remain strong in future and continue to create value to its shareholders including the Company.

(iii) Capture the opportunity arising from potential business growth in B&O products in the PRC through acquisition of the Sale Equity

As set out in the Letter from the Board, the PRC JV is owned as to 51% by the Company through its several subsidiaries and as 49% by the Onshore Vendor as at the Latest Practicable Date. Given that upon Completion, the PRC JV will become the indirectly wholly-owned subsidiary of the Company, we are of the view that the Company shall be directly affected by B&O's operating and financial performance in future.

The PRC JV is a non-exclusive retailer of "B&O PLAY" branded audio and visual consumer electronics products in the PRC. Set out below is the financial highlight of the PRC JV for each of the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2015 and 2016 as extracted from the PRC JV's Accountants' Report prepared in accordance with the Hong Kong Financial Reporting Standard:

	Year ended 31 March 2014	**Year ended 31 March 2015**	**Year ended 31 March 2016**	**Six months ended 30 September 2015**	**Six months ended 30 September 2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Total assets	48,842	53,408	52,075	N/A	48,015
Net asset value	47,191	43,283	42,593	N/A	43,270
Revenue	17,159	22,890	40,568	17,695	26,637
(Loss)/profit for the year/period	(2,703)	(3,908)	(690)	(454)	677

We noted from the above table that the PRC JV's financial performance was improving historically. Revenue of the PRC JV increased from approximately RMB17.2 million for the year ended 31 March 2014 to approximately RMB40.6 million for the year ended 31 March 2016 mainly due to the increase in sales of B&O PLAY's products in the PRC via the channel of e-commerce. In addition, due to the increased usage of e-commerce, the sale volume was increased which turnaround the net loss position for the three years ended 31 March 2016 to the net profit position for the six months ended 30 September 2016.

We expected the performance of the PRC JV shall remain strong in future due to (i) the strong market outlook of the wireless audio market as discussed above, (ii) B&O's continuing effort in distributing B&O PLAY products in the PRC and (iii) the Group's continuing investment in e-commerce platforms.

According to the 2016 B&O Annual Report and the 2017 Q1 B&O Report, the B&O PLAY segment of B&O increased by approximately 58.1% from approximately DKK613.5 million for the year ended 31 May 2015 to approximately DKK970.2 million for the year ended 31 May 2016 and further increased by approximately 40.6% from approximately DKK162.7 million for the three months ended 31 August 2015 to approximately DKK228.7 million for the three months ended 31 August 2016. Geographically, revenue of B&O in the Greater China region for the three months ended 31 August 2016 was DKK77.6 million compared to DKK64.8 million for the corresponding period last year, representing an increase of approximately 19.8% which was mainly driven by the continued growth in B&O PLAY sales. Based on the historical success of the PRC market experienced by B&O and the enhanced communication between B&O and PRC JV, we are of the view that B&O will continue to focus on the PRC's market and continue to build its brand awareness among the consumers there and aggressively expand its distribution network in the PRC through the PRC JV.

According to the 2016 B&O Annual Report and the 2017 Q1 B&O Report, e-commerce was, and will continue to be a key part of B&O PLAY distribution strategy and supports the overall growth of the brand in future. According to the announcement issued by the Company on 8 December 2015, the Group has decided to commence its investment in establishing an e-commerce platform, namely "Sparkle Roll Online" which will be accessible through internet and mobile apps, to capture the emerging e-commerce market. There will be different categories of online channels for ultra-luxury cars, super deluxe branded watches, top-tier branded jewelleries, fine wines, niche luxury goods, high-end tours, investment and finance, dream mansion, celebrity club and the wonderland respectively. According to the 2016 Annual Report, the Group targets to launch such e-commerce platform in or about the end of the second quarter of 2016 and tentatively expects that to be launched in five stages and to be fully operated by the end of 2017. By the completion of the establishment of the e-commerce platform, we are of the view that B&O, which experienced success in distributing its products through e-commerce platform, will further expand its sales in the PRC through the PRC JV by leveraging its new e-commerce platform and therefore shall directly enhance the performance of the PRC JV in future.

Having considered the strong market outlook of the PRC JV as reasoned above, we are of the view that the acquisition of the remaining equity interest in the PRC JV will further enhance the Group's profitability as the PRC JV will become wholly-owned subsidiary of the Group and the Company will enjoy entire upcoming profit generated from the PRC JV upon Completion.

(iv) Potential benefit from business diversification

According to the 2016 Annual Report, the China Automobile Association stated that there was a slowdown in growth of luxury automobile market with 6.9% growth in 2014 when compared with the 13.9% growth in 2013. In order to maintain the Group's profitability sustainably, we are of the view that it would be in the interest of the Shareholders and the Company as a whole to diversify the source of revenue of the Group by expanding the business other than the luxury automobile segment such as audio and visual consumer electronics products.

According to the 2016 Annual Report, sales performance of the business division named "Others" of the Group performed satisfactorily with revenue increased by approximately 75.7% from HK$40.3 million for the year ended 31 March 2015 to HK$70.8 million for the year ended 31 March 2016, while revenue from the automobile segment recorded an approximately 10.9% decline in the same period. The product categories under such business division include fine wine, audio equipment, menswear apparel and accessories and cigars and smoker's accessories. Among those products, B&O performed the best in terms of revenue contribution, particularly attributable to e-commerce sales of "B&O PLAY". As stated in the Letter from the Board, revenue attributable to "B&O PLAY" products increased from approximately HK$28.6 million for the year ended 31 March 2015 to approximately HK$49.3 million for the year ended 31 March 2016.

In light of the historical strong performance of B&O segment of the Group, the strong market outlook of the wireless audio product and the PRC JV as discussed above, we are of the view that the Acquisition to invest in B&O and to expand its equity interest in the PRC JV to diversify the business of the Group and broaden the revenue source other than the sales of luxury automobile in the future is in the interest of the Shareholders and the Company as a whole.

Taking into account the above, we are of the view that the entering the Sale and Purchase Agreement is in the interest of the Company and the Shareholders as a whole.

II. PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

As set out in the Letter from the Board, set out below the major terms of the Sale and Purchase Agreement:

Date	:	20 October 2016
Parties	:	the Company Sparkle Roll Xin Tian Di Commerce Development Limited, as the Onshore Purchaser Sparkle Roll Holdings Limited, as the Offshore Vendor Beijing Sparkle Roll Investment Limited, as the Onshore Vendor Mr. Qi, as the Guarantor of the Vendors' obligations
Assets to be acquired	:	(i) the Offshore Vendor has conditionally agreed to sell and the Company agreed to purchase the Sale Shares, representing approximately 15.09% of total issued shares of B&O; and (ii) the Onshore Vendor has conditionally agreed to sell and the Onshore Purchaser has conditionally agreed to purchase the Sale Equity, representing 49% equity interests in the PRC JV
Consideration	:	The aggregate Consideration for the Acquisition shall be HK$522,633,868.65, of which: (i) the Sale Shares Consideration shall be HK$494,145,496.35, and shall be payable by the Company; and (ii) the Sale Equity Consideration shall be HK$28,488,372.30, and shall be payable by the Onshore Purchaser. The whole of the Consideration shall be settled by the Purchasers on the Completion Date by procuring the Company to issue the Consideration Shares, to be credited as fully paid at the Issue Price of HK$0.45 per Consideration Share, to the Offshore Vendor.

Lock-up Undertakings	:	The Offshore Vendor undertakes to the Company that unless with the prior written approval of the Company, the Offshore Vendor shall not sell, transfer, or otherwise dispose of (or enter into any agreement to dispose of), any of the Consideration Shares or any interest therein, and shall not permit the registered holder of the Consideration Shares to sell, transfer or otherwise dispose of (or enter into any agreement to dispose of) any of the Offshore Vendor's direct or indirect interests in the Consideration Shares for a period of twenty-four (24) months after the Completion Date. However, the Lock-up Undertaking shall not apply to the creation by the Offshore Vendor of any mortgage, charge, pledge, lien or other encumbrances on the Consideration Shares in favour of a qualified lender (as defined under section 308 of the SFO) for a bona fide commercial loan (including a loan to be used in connection with the Offer) or any sale, transfer or otherwise dispose of the Consideration Shares pursuant to an exercise of power of sale contained in such mortgage, charge, pledge, lien or other encumbrances.
Conditions precedent	:	For details of the conditions precedent, please refer to the Letter from the Board.

Consideration

The Consideration is HK$522,633,868.65, which will be satisfied upon Completion, by way of allotment and issue of a total of 1,161,408,597 Consideration Shares to the Offshore Vendor at Issue Price of HK$0.45 per Consideration Share. As stated in the Letter from the Board, the Sales Shares Consideration has been arrived at between the Company and the Offshore Vendor after arm's length negotiations after taking into account of, among other things, (i) the market capitalization of B&O; (ii) the share price performance, liquidity and business prospects of B&O and the Company; and (iii) the lockup period of the Consideration Shares; and the Sale Equity Consideration has been arrived between the Company and the Onshore Vendor after arm's length negotiations after taking into account including but not limited to (i) the net assets value of the PRC JV; (ii) the historical financial performance and the business prospects of the PRC JV; (iii) the price performance and trading volume of the Company; and (iv) the lockup period of the Consideration Shares.

The Sale Shares Consideration

The Sale Shares Consideration is HK$494,145,496.35 which is equivalent to approximately DKK423,432,302. Given the number of Sale Shares of 6,519,358, the price per share of B&O to be paid by the Company for the acquisition of B&O is approximately DKK64.9 per share.

To assess the fairness and reasonableness of the price per share to be paid by the Company for the acquisition of B&O of DKK64.9 per share, we have reviewed the historical price movement of the share price of B&O. Set out below is the diagram demonstrating the daily closing share price of B&O as quoted on Nasdaq during the last twelve months preceding the date of the Last Trading Day (i.e. 22 October 2015 to 20 October 2016) (the "**B&O Share Review Period**"), of which we considered it is an appropriate period to reflect the recent market valuation to B&O:



Source: website of Nasdaq

During the B&O Share Review Period, the lowest closing price and highest closing price of the share of B&O was DKK44.0 recorded on 2 November 2015 and DKK83.5 recorded on 29 December 2015, respectively. The average daily closing price of the share of B&O during the B&O Share Review Period was approximately DKK67.3. Therefore, the price per share to be paid by the Company for the acquisition of B&O of DKK64.9 lies within the range of the lowest and highest closing price of the share of B&O during the B&O Share Review Period and also represent a discount of approximately of 3.7% of the average daily closing price of the share of B&O during the B&O Share Review Period. Furthermore, the current market price of the share of B&O as at the Latest Practicable Date was DKK79.0 per share and therefore the price per share to be paid by the Company for the acquisition of B&O of DKK64.9 represents a discount of approximately 17.8%. Based on the foregoing, and taken into account of the reasons for the acquisition of the Sale Share as detailed in the section headed "2. Reasons for entering into the Sale and Purchase Agreement" above, we are of the view that, it's fair and reasonable and in the interest of the Shareholders and the Company as a whole for the Company to acquire the Sale Shares from the Offshore Vendor instead of in the stock market given the price offered by the Offshore Vendor is lower than that offered in the stock market.

In addition, given the acquisition of the Sale Shares represent the acquisition of the 15.09% equity interest of B&O and the 15.09% of the audited consolidated net assets value of B&O as at 31 May 2016 was approximately HK$303,755,407, the Consideration of Sale Shares of HK$494,145,496.35 represents a price-to-book ratio ("**PBR**") of approximately 1.63 times to the net assets value of B&O as at 31 May 2016. Given that B&O was loss making for the year ended 31 May 2016, price-to-earnings ratio of B&O is not applicable.

Accordingly, in assessing the fairness and reasonableness of the Consideration of Sale Shares, we have performed a PBR analysis on companies that are comparable to B&O. We selected such comparable companies based on the following criteria: the companies that (i) are identified as key industry players of wireless audio market in the research report headed "Home Audio Systems, The Growth of Wireless Audio: Wireless Headphones, Mobile Speakers, Room Speakers, Multi-room Speakers, Sound Bars and HTiB Systems" published in December 2014 by Research And Markets, an online database of market research reports; and (ii) are publicly listed. To the best of our knowledge and endeavor, we found 11 listed companies (the "**B&O Comparables**") which meet the above criteria and they are exhaustive as far as we are aware of. Despite the B&O Comparables are not engaged in exactly the same business as B&O and they may not be entirely comparable to B&O in terms of products, stage of development, operation scale, market capitalisation, listing

platform etc., we believe that the B&O Comparables are able to serve as fair and representative samples for comparison purpose, and in forming our opinion, we have considered the PBR analysis results below with all other factors stated in this letter as a whole.

Exchange (Code)	Company Name	Principal businesses	PBR as at the Last Trading Day *Note*
Korea Exchange (003550)	LG Corp.	Operates on electronics, chemicals and household products manufacturing and telecommunications services	0.82
Korea Exchange (005930)	Samsung Electronics Co Ltd.	Manufactures a wide range of consumer and industrial electronic equipment and products and also produces Internet access network systems and telecommunications equipment including mobile phones	1.25
New York Stock Exchange (PLT)	Plantronics Inc.	Designs, manufactures, and markets lightweight communications headsets and headset accessories and services and also manufactures and markets specialty telephone products	5.46
NASDAQ (LOGI)	Logitech International SA (USA)	Manufactures personal computer input devices and sells its products worldwide	4.89
New York Stock Exchange (HAR)	Harman International Industries Inc.	Designs, manufactures and markets audio and electronic systems, audio, electronic and infotainment systems for vehicle applications and home, mobile and multimedia applications	2.28
New York Stock Exchange (PHG)	Koninklijke Philips NV (ADR)	Offers products and services in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care	2.09
Tokyo Stock Exchange (6752)	Panasonic Corporation	Manufactures electric and electronic products and produces home appliances, audio and video, computer peripherals, telecommunications, industrial equipment and electronic parts	1.53

Exchange (Code)	Company Name	Principal businesses	PBR as at the Last Trading Day *Note*
Tokyo Stock Exchange (6628)	Onkyo Corporation	Manufactures and sells audio system, home theater system, speaker system, and multi-media products	5.36
Tokyo Stock Exchange (6753)	Sharp Corporation	Manufactures consumer and industrial electronics and its products include audio-visual and communication equipment	3.17
Tokyo Stock Exchange (6758)	Sony Corp.	Manufactures audio, home video game consoles, communications, key device, and information technology products for the consumer and professional markets and other businesses include music, pictures, computer entertainment, and online businesses	1.47
Tokyo Stock Exchange (6773)	Pioneer Corp.	Manufactures and sells audio and video equipment for household, industrial, and automobile use and also produces and sells visual and music software and media	1.09
		Maximum	5.46
		Minimum	0.82
		Average	2.67
		After excluding the outliers being the lowest and highest PBR of the comparable companies	
		Maximum	5.36
		Minimum	1.09
		Average	2.57
		PBR of Sale Shares Consideration	1.63

Source: website of Nasdaq, website of Korea Exchange, website of Tokyo Stock Exchange and the latest published financial reports of the respective comparable companies

Notes:

PBR of the B&O Comparables are calculated by dividing the market capitalization as at the Last Trading Date by the net asset value attributable to the owners of the company disclosed in the respective latest published financial reports.

As indicated in the above table, the PBR of the Sale Shares Consideration is approximately 1.63 times and is within the range of approximately 0.82 times to approximately 5.46 times and below the average of 2.67 times of the PBRs of the B&O Comparables. By excluding the outliers of 5.46 times and 0.82 times, the PBR of the Sale Shares Consideration is approximately 1.63 times and is still within the range of 1.09 times to 5.36 times and below the average of approximately 2.57 times. In light of the above, we consider the Sale Shares Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Sale Equity Consideration

As stated in the Letter from the Board, the Sale Equity Consideration is determined with reference to, among others, the net assets value of the PRC JV. According to the Accountants' Report of the PRC JV, the net assets value of the PRC JV as at 30 September 2016 was approximately RMB43.3 million which is equivalent to approximately HK$50.3 million and hence the 49% of the net assets value of the PRC JV as at 30 September 2016 is equivalent to approximately RMB21.2 million or approximately HK$24.7 million. The Sale Equity Consideration of approximately HK$28.5 million is therefore at the premium of approximately 15.4% of the 49% of the net assets value of the PRC JV as at 30 September 2016 or represents a PBR of approximately 1.15 times. Given that the PRC JV was loss making for the year ended 31 March 2016, price-to-earnings ratio of the PRC JV is not applicable.

Accordingly, in assessing the fairness and reasonableness of the consideration of Sale Equity, we have performed a PBR analysis on companies that are comparable to the PRC JV. We selected such comparable companies based on the following criteria: the companies that (i) are listed on the Stock Exchange and (ii) principally engaged in the business in relation to the sales of consumer electronic products which contribute at least 50% to the total revenue of the selected companies for the latest financial year. To the best of our knowledge and endeavor, we found 7 listed companies (the "**PRC JV Comparables**") which meet the above criteria and they are exhaustive as far as we are aware of. Despite the PRC JV Comparables are not engaged in exactly the same business as the PRC JV and they may not be entirely comparable to the PRC JV in terms of products, stage of development, operation scale, market capitalisation etc., we believe that the PRC JV Comparables are able to serve as fair and representative samples for comparison purpose, and in forming our opinion, we have considered the PBR analysis results below with all other factors stated in this letter as a whole.

Stock Code	Company Name	Principal businesses	PBR as at the Last Trading Day *Note*
493	GOME Electrical Appliances Holding Ltd.	Operation and management of networks of electrical appliances, consumer electronic products retail stores and electronic products on-line sales in the PRC.	0.85
248	HKC International Holdings Ltd.	Sales of mobile phones, sales of business solutions and property investment.	1.03
186	The Grande Holdings Limited	Distribution of household appliances and consumer electronic products and licensing of trademarks.	11.18
110	China Fortune Holdings Limited	Distribution and trading of mobile phones and related accessories, development of marketing and after-sales service network and mining and processing of celestite, zinc and lead minerals.	2.11
328	Alco Holdings Limited	Designing, manufacturing and selling of consumer electronic products.	0.87
485	Shihua Development Company Limited	Design and sale of electronic products; operation and management of a hydroelectric power station; property investment and securities trading.	1.64
927	Fujikon Industrial Holdings Ltd	Design, manufacture, marketing and trading of electro-acoustic products and accessories, and other electronic products.	0.78
		Maximum	11.18
		Minimum	0.78
		Average	2.64
		After excluding the outliers being the lowest and highest PBR of the comparable companies	
		Maximum	2.11
		Minimum	0.85
		Average	1.30
		PBR of the Sale Equity Consideration	1.15

Source: website of the Stock Exchange, the latest published financial reports of the respective comparable companies

Notes:

PBR of the PRC JV Comparables are calculated by dividing the market capitalization as at the Last Trading Day by the net asset value attributable to the owners of the company disclosed in the respective latest published financial reports.

As indicated in the above table, the PBR of the Sale Equity Consideration is approximately 1.15 times and is within the range of 0.78 times to 11.18 times and well below the average of the PBRs of 2.64 times of the PRC JV Comparables. By excluding the outliers of 11.18 times and 0.78 times, the PBR of the Sale Equity Consideration is approximately 1.15 times and is still within the range of 0.85 times to 2.17 times and below the average of the PBRs of the PRC JV Comparables of 1.30 times. In light of the above, we consider the Sale Equity Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, as discussed with the management of the Company, the Sale Equity Consideration is also reference to the original acquisition cost of RMB24.5 million or equivalent to approximately HK$28.5 million paid by Mr. Qi to the PRC JV in 2013 for the 49% equity interest in the PRC JV. Having considered that (i) the Sale Equity Consideration of approximately HK$28.5 million is the same as the original acquisition cost paid by Mr. Qi in 2013, (ii) the turnaround of the net loss position of the PRC JV for the six months ended 30 September 2016, and (iii) the strong market outlook of the PRC JV in future as detailed in previous section of this letter, we concur with the Board's view that the Sale Equity Consideration that only being set at the same as the original acquisition cost in approximately 3 years ago without upward adjustment according to the improving financial performance of the PRC JV is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Issue Price

As set out in the Letter from the Board, the Consideration Shares represent approximately 38.98% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 28.04% of the enlarged issued share capital of the Company immediately after Completion. The Issue Price of HK$0.45 per Consideration Share represents:

(i) a discount of approximately 40.79% to the closing price of HK$0.76 per Share as quoted on the Stock Exchange on the date of the Last Trading Day;

(ii) a discount of approximately 32.02% to the average closing price of HK$0.662 per Share in the last five consecutive trading days up to and including the date of the Last Trading Day;

(iii) a discount of approximately 33.53% to the average closing price of HK$0.677 per Share in the last ten consecutive trading days up to and including the date of the Last Trading Day;

(iv) a discount of approximately 29.69% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

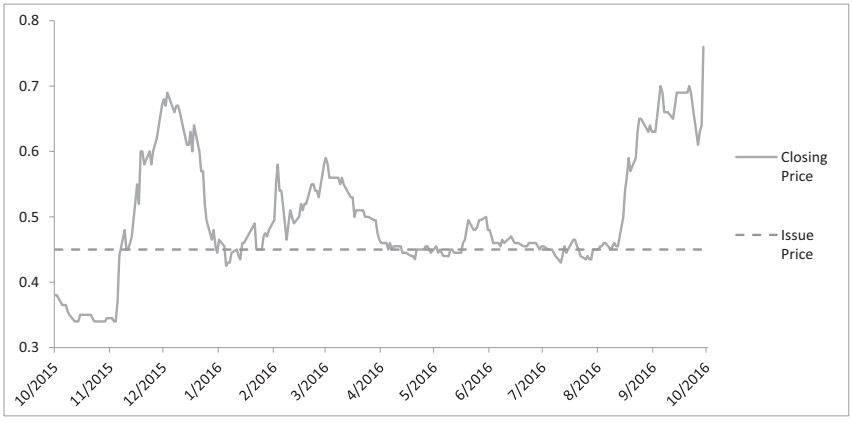
(v) a premium of approximately 21.62% over the net asset value per Share as at 30 September 2016 of approximately HK$0.370 based on unaudited consolidated net asset value of the Group as at 30 September 2016 extracted from the interim results announcement of the Company for the six months ended 30 September 2016 and 2,979,828,850 Shares in issue as at the Latest Practicable Date.

The Consideration Shares are to be issued by the Company pursuant to the Specific Mandate. The Company will seek the grant of the Specific Mandate from Independent Shareholders at the SGM. The Consideration Shares shall be allotted and issued at the Issue Price each, credited as fully paid and shall rank *pari passu* among themselves and with all other Shares in issue at the Completion Date.

To assess the fairness and reasonableness of the Issue Price, we have conducted below analysis:

(a) Historical price movement analysis

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on the Stock Exchange during the last twelve months preceding the date of the Last Trading Day (i.e. 22 October 2015 to 20 October 2016) (the "**Company Shares Review Period**"), of which we considered it is an appropriate period to reflect the recent market valuation to the Share:



Source: the Stock Exchange website (www.hkex.com.hk)

During the Company Share Review Period, the lowest closing price of the Shares was HK$0.34 recorded on 2 November 2015 to 4 November 2015, 13 November 2015 to 19 November 2015 and 24 November 2015 to 25 November 2015, while the highest closing price of the Shares was HK$0.76 recorded on the Last Trading Day. The average daily closing price of the Shares during the Company Share Review Period is HK$0.50. The Issue Price is within the aforesaid range, but below the daily average, of the closing price of the Shares during the Company Share Review Period. Nevertheless, by taking into account of the reasons stated in the section headed "2. Reasons for entering into the Sale and Purchase Agreement" such as strategic collaboration with B&O, potential business growth in B&O products, strong market outlook of the wireless audio market and the potential benefit from business diversification, we are of the view that the Issue Price, though representing a slight discount to the daily average of the closing price of the Shares during the Company Share Review Period, is still fair and reasonable and was reached based on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(b) Trading volume and liquidity analysis

Set out below is (i) the average daily trading volume of the Shares in each month during the Company Share Review Period; (ii) the respective percentages of the average daily trading volume of the Shares as compared to the number of total issued Shares; and (iii) the respective percentages of the average daily trading volume of the Shares as compared to the total issued Shares held by the public.

	Average daily trading volume of the Shares	**% of the average daily trading volume to the total number of issued Shares** *(Note 1)*	**% of the average daily trading volume to the total number of issued Shares held by the public** *(Note 2)*
2015			
October (from 22 October)	862,857	0.03%	0.05%
November	2,739,429	0.09%	0.16%
December	20,986,794	0.70%	1.20%

	Average daily trading volume of the Shares	% of the average daily trading volume to the total number of issued Shares *(Note 1)*	% of the average daily trading volume to the total number of issued Shares held by the public *(Note 2)*
2016			
January	5,468,813	0.18%	0.31%
February	2,084,163	0.07%	0.12%
March	1,412,161	0.05%	0.08%
April	1,178,255	0.04%	0.07%
May	794,717	0.03%	0.05%
June	539,381	0.02%	0.03%
July	639,875	0.02%	0.04%
August	632,727	0.02%	0.04%
September	11,455,333	0.38%	0.65%
October (up to the Last Trading Day)	6,047,423	0.20%	0.35%

Source: the Stock Exchange website (www.hkex.com.hk)

Notes:

1. the total number of issued Shares as at Latest Practicable Date was 2,979,828,850.

2. the total number of issued Shares held by the public shareholders was 1,752,724,450.

As illustrated in the above table, the percentage of the average daily trading volume to the total number of the issued Shares ranged from approximately 0.02% to 0.70%, and approximately 0.03% to 1.20% of the total number of Shares held by the public shareholders of the Company. The average daily trading volume of the Shares among the Company Share Review Period was approximately 4,450,612 shares, representing approximately 0.15% of the total number of issued Shares and approximately 0.25% of the total number of Shares held by the public shareholders of the Company. Save and except for December 2015, the liquidity of the Shares was relatively thin, with an average trading volume of the Shares to the total number of the issued Shares and to the shareholding held by the public shareholders of the Company of below 1.0%.

Since the overall liquidity of the Shares was relatively thin during the Company Share Review Period and the twenty-four (24) months lock-up period after the Completion Date for the Consideration Shares is relatively long as compared to the six months lock-up period undertaken by the controlling shareholders of the new applicant of listing in the Stock Exchange, we consider it is reasonable for the Issue Price to be determined at a discount to the closing price of the Shares on the Last Trading Day.

(c) Comparable transaction analysis

In addition to our analysis above, we have also identified list of transactions by the companies listed on the Stock Exchange of which the underlying acquisitions involved the issue of shares under the specific mandate and announced within the 3 months period before the Last Trading Day i.e. from 21 July 2016 to 20 October 2016 (the "**Issuance Comparables**").

The Issuance Comparables have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. We note that the companies involved in the Issuance Comparables are not engaged in similar businesses as the principal business of the Company. However, since the Issuance Comparables were transacted at the time close to the date of the Sale and Purchase Agreement under similar market conditions and investment sentiments, we are of the view that the Issuance Comparables, although not

to be used in isolation in determining the fairness and reasonableness of the Issue Price, nevertheless can provide a general reference for the Independent Shareholders as they can reflect recent market trends of terms of transactions involving issuance of shares as full or partial settlement of consideration. As such we consider that the Issuance Comparables are fair and representative samples.

Company	Stock code	Date of announcement	Premium/(discount) of the issue/ subscription price over/(to) closing price per share on the last trading day prior to the date of announcement in relation to the respective transaction	Premium/(discount) of the issue/ subscription price over/(to) average closing price of the shares for the last five trading days prior to the date of announcement in relation to the respective transaction	Premium/(discount) of the issue/ subscription price over/(to) average closing price of the shares for the last ten trading days prior to the date of announcement in relation to the respective transaction
New Sports Group Ltd.	299	19 Sep 2016	(47.46%)	(48.84%)	(48.63%)
Asian Citrus Holdings Ltd.	73	25 Aug 2016	(19.35%)	(21.14%)	(21.51%)
Lisi Group (Holdings) Ltd.	526	9 Aug 2016	(43.76%)	(43.93%)	(43.41%)
China Mining Resources Group Ltd.	340	4 Aug 2016	(23.81%)	(25.65%)	(25.79%)
UKF (Holdings) Ltd.	1468	31 Jul 2016	(7.69%)	(9.55%)	(10.00%)
China Environmental Technology Holdings Ltd.	646	28 Jul 2016	(13.79%)	(13.42%)	(12.66%)
		Maximum Discount	(47.46%)	(48.84%)	(48.63%)
		Minimum Discount	(7.69%)	(9.55%)	(10.00%)
		Average	(25.98%)	(27.09%)	(27.00%)
		Issue Price	(40.79%)	(32.02%)	(33.53%)

Source: the Stock Exchange website (www.hkex.com.hk) and respective announcements by the relevant listed companies

As noted in the table above, the issue prices of the Issuance Comparables are within the range of: (i) a minimum discount of approximately 7.69% to a maximum discount of approximately 47.46% to the respective closing prices of their shares on the last trading days (the "**Market Range I**") with an average discount of approximately 25.98% (the "**Market Average I**"); (ii) a minimum discount of approximately 9.55% to a maximum discount of approximately 48.84% to the respective closing prices of their shares on the last five trading days (the "**Market Range II**") with an average discount of approximately 27.09% (the "**Market Average II**"); and (iii) a minimum discount of approximately 10.00% to a maximum discount of approximately 48.63% to the respective closing prices of their shares on the last ten trading days (the "**Market Range III**") with an average discount of approximately 27.00% (the "**Market Average III**").

The Issue Price represents a discount of approximately 40.79% to the closing price of the Shares on the Last Trading Day (the "**Issue Price Discount I**"), a discount of approximately 32.02% to the average closing price of the Shares on last five consecutive trading days (the "**Issue Price Discount II**") and a discount of approximately 33.53% to the average closing price of the Shares on last ten consecutive trading days (the "**Issue Price Discount III**").

Given that (i) the Issue Price Discount I is within the Market Range I; (ii) the Issue Price Discount II is within the Market Range II and close to the Market Average II; (iii) the Issue Price Discount III is within the Market Range III and not far to the Market Average III; and (iv) taking into account of the reasons stated in the section headed "2. Reasons for entering into the Sale and Purchase Agreement" such as strategic collaboration with B&O, potential business growth in B&O products, strong market outlook of the wireless audio market and the potential benefit from business diversification, we are of the view that the Issue Price is fair and reasonable and was reached based on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

III. DILUTION EFFECT ON THE SHAREHOLDING INTERESTS OF THE EXISTING PUBLIC SHAREHOLDERS

The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and the effect on the shareholding structure of the Company upon Completion:

Shareholders	**As at the Latest Practicable Date**		**Immediately after Completion and before the Offer**	
	Number of Shares	*%*	*Number of Shares*	*%*
The Offeror, Mr. Qi and parties acting in concert with any of them:				
The Offeror	855,864,000	28.72	2,017,272,597	48.71
Mr. Qi	7,224,000	0.24	7,224,000	0.17
Kingston Securities and its associates	2,992,000	0.10	2,992,000	0.07
Sub-total of the Offeror, Mr. Qi and parties acting in concert with any of them	866,080,000	29.06	2,027,488,597	48.95
Directors				
Tong Kai Lap *(Note 2)*	20,034,400	0.67	20,034,400	0.48
Zheng Hao Jiang	10,640,000	0.36	10,640,000	0.26
Choy Sze Chung, Jojo	1,000,000	0.03	1,000,000	0.02
Lee Thomas Kang Bor	1,256,000	0.04	1,256,000	0.03
Substantial Shareholder:				
Wang Qiang ("**Mr. Wang**") *(Note1)*	328,094,000	11.01	–	–
Public				
Mr. Wang *(Note 1)*	–	–	328,094,000	7.92
Other public shareholders	1,752,724,450	58.83	1,752,724,450	42.34
Total	**2,979,828,850**	**100.00**	**4,141,237,447**	**100.00**

Notes:

1. Mr. Wang holds 309,112,000 Shares through Street Smart Properties Limited which was wholly-owned by Mr. Wang as at the Latest Practicable Date. Save as disclosed in the above shareholding structure, Mr. Wang has no other relationship with the Company and the assets to be acquired under the Acquisitions. Assuming that Mr. Wang does not buy additional or dispose of his shareholding in the Company before the Completion, Mr. Wang's shareholding will be regarded as shares held by the public upon Completion.

2. Mr. Tong, an executive Director and Chairman of the Group, is also an existing director of B&O. He directly holds 9,760,000 Shares and 10,274,400 Shares are held by Rapid Alert International Limited, a company controlled by a discretionary trust of which Mr. Tong is the founder. Therefore, he holds 20,034,400 Shares, representing approximately 0.67% of interest in Shares as at the Latest Practicable Date.

We noted that the shareholding interest of the existing public Shareholders is subject to dilution to the aforementioned extents as a result of the Acquisition. However, with considerations of (i) the reasons for and benefit of entering into the Sale and Purchase Agreement; (ii) the Consideration being fair and reasonable to the Company and the Shareholders; and (iii) the Issue Price being fair and reasonable as far as the Independent Shareholders are concerned as discussed in above sections, we consider the possible dilution effect on the shareholding interests of the existing public Shareholders to be justifiable.

IV. FINANCIAL EFFECTS OF THE ACQUISITION

Assets and liabilities

Upon Completion, B&O will become an associate company of the Company and will be accounted by way of equity accounting in the consolidated financial statements of the Company. Also, the PRC JV will become an indirectly wholly-owned subsidiary of the Company and the PRC JV's assets and liabilities as well as its financial results will be included in the consolidated financial statements of the Company upon Completion.

As at 30 September 2016, the Group had total assets of approximately HK$1,575 million and total liabilities of approximately HK$473 million. Based on (i) the total assets and liabilities of the Group as at 30 September 2016, (ii) the total assets and liabilities of the PRC JV as at 30 September 2016 and (iii) the total assets and liabilities of B&O as at 31 May 2016, assuming Completion had taken place on 30 September 2016, the unaudited pro forma total assets will be approximately HK$2,300 million and total liabilities will be approximately HK$473 million.

Since the NAV is expected to increase after the Completion, we are of the view that the Acquisition will have a positive impact on NAV of the Group.

Working Capital

As disclosed in the interim results announcement of the Company for the six months ended 30 September 2016, the Group had current assets of approximately HK$1,256 million including cash at banks and in hand of approximately HK$103 million and current liabilities of approximately HK$472 million. Given that Consideration of HK$522,633,868.65 shall be satisfied by the allotment and issue of the Consideration Shares to the Offshore Vendor and no Consideration would be paid in cash. As such, we consider that the Acquisition will not have a material adverse impact on the cash and working capital of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Acquisition.

CONCLUSION AND RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the Transaction is in the ordinary and usual course of the business of the Group, (ii) the execution of the Transaction is in the interests of the Company and the Shareholders as a whole and (iii) the terms of the Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, we advise (i) the Listing Rules Independent Board Committee to recommend the Independent Shareholders to vote in favor of the relevant resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM; and (ii) the Independent Shareholders to vote in favor of the relevant resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM.

For the purposes of this letter, unless otherwise indicated, conversion of RMB and HK$ is calculated at the exchange rate of HK$1 = RMB0.86 (i.e. RMB1 to HK$1.16279); and conversion of DKK and HK$ is calculated at the exchange rate of HK$1 = DKK0.857 (i.e. DKK1 to HK$1.167). The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may be exchanged at this or any other rate at all.

Yours faithfully,
For and on behalf of
TC Capital International Limited

Edward Wu	**Stanley Chung**
Chairman	*Managing Director*

Note: Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. Both Mr. Wu and Mr. Chung have participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

1. FINANCIAL SUMMARY

The audited consolidated financial statements of the Group for each of the three financial years ended 31 March 2014, 2015 and 2016 and the unaudited consolidated financial statements of the Group for the six months ended 30 September 2016 have been disclosed on the websites of the Stock Exchange at ''http://www.hkexnews.hk'' and of Sparkle Roll at ''http://www.hk970.com'' as follows, which are incorporated by reference into this circular:

(a) annual report of Sparkle Roll for the year ended 31 March 2014 published on 11 July 2014 (pages 57-187)

(http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0711/LTN20140711142.pdf)

(b) annual report of Sparkle Roll for the year ended 31 March 2015 published on 28 July 2015 (pages 65-187)

(http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0728/LTN20150728621.pdf)

(c) annual report of Sparkle Roll for the year ended 31 March 2016 published on 18 July 2016 (pages 70-179)

(http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0718/LTN20160718547.pdf)

(d) interim results announcement of Sparkle Roll for the six months ended 30 September 2016 published on 22 November 2016 (pages 1-16)

(http://www.hkexnews.hk/listedco/listconews/SEHK/2016/1122/LTN20161122455.pdf)

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2016, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness:

	Unsecured	Secured		
Borrowings	**Guaranteed**	**Non-guaranteed**	**Guaranteed**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	3,930	68,999	120,742	193,671
Other loans	–	–	114,728	114,728
	3,930	68,999	235,470	308,399

As at 30 September 2016, the Group's loans facilities were secured by inventories and bank deposits of the Group of approximately HK$261,237,000 and HK$64,289,000 respectively.

As at 30 September 2016, the Company and certain subsidiaries have guaranteed certain of the Group's bank and other loans up to HK$239,400,000.

Save as disclosed above and apart from the intra-group liabilities and normal trade and other payables arising in the ordinary course of business, at the close of the business on 30 September 2016, the Group did not have any other outstanding indebtedness, loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitment, guarantees or contingent liabilities.

The Directors confirm that, save as disclosed therein, there has not been any material change in the indebtedness, contingent liabilities and commitments of the Group since 30 September 2016.

3. BUSINESS REVIEW

The management discussion and analysis of the Group for each of the three years ended 31 March 2014, 31 March 2015, 31 March 2016 and six months ended 30 September 2016 have been disclosed in the annual reports of Sparkle Roll for the years ended 31 March 2014 (pages 6 to 11), 31 March 2015 (pages 11 to 21), 31 March 2016 (pages 10 to 17) and the interim results announcement of Sparkle Roll for the six months ended 30 September 2016 (pages 19 to 21) respectively, which are incorporated by reference into this circular. The said annual reports and the said interim results announcement of Sparkle Roll are available on the designated website of Sparkle Roll at http://www.hk970.com and the website of the Stock Exchange at http://www.hkexnews.hk.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the interim results announcement of the Group for the six months ended 30 September 2016, luxury cars in the PRC have been adversely affected by the current Chinese Government's corruption crackdown. However, the outlook for the luxury car market in China is promising. It is expected that by 2020, China will become the world's leading luxury car market, leaving the United States behind. Automobile dealerships are our primary focused business.

Looking ahead, given the still challenging environment of the luxury goods markets in the PRC, the Group is nonetheless cautiously optimistic and committed to continue our leading roles as a luxury goods manager. As mentioned previously, we have been targeting to destock our non-auto inventory, we are glad to report that satisfactory progress has been achieved during the six months ended 30 September 2016. As such, the Group plans to extend such destocking program to "Others" division, especially to those products with low stock turnover rate. Currently, our "Others" division includes the distribution of fine wines, audio equipment, menswear apparels and accessories and cigars and smoker's accessories.

As regards "Sparkle Roll Online" project, the Group remains committed to establishing an e-commerce platform, "Sparkle Roll Online", to capture the evolving e-commerce market. The second stage of such project is expected to be launched at the end of the first quarter of 2017.

5. MATERIAL ADVERSE CHANGE

Save as disclosed above, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. SUFFICIENCY OF WORKING CAPITAL

After taking into account the financial resources presently available to the Group, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this circular.

1. PUBLISHED FINANCIAL INFORMATION OF B&O FOR EACH OF THE THREE YEARS ENDED 31 MAY 2016 AND THE INTERIM REPORT FOR THE THREE MONTHS ENDED 31 AUGUST 2016 ("B&O PUBLISHED ACCOUNTS")

Set out below are B&O Published Accounts. Page references included in the audited consolidated financial statements for each of the years ended 31 May 2014, 2015 and 2016 set forth below refer to pages in the annual reports for each of the years ended 31 May 2014, 2015 and 2016, as the case may be. Those annual reports are not incorporated by reference herein and do not form part of this circular.

(a) Published audited financial statements for the year ended 31 May 2014

The following is the extracted audited consolidated financial statements of B&O for the year ended 31 May 2014, which were prepared in accordance with IFRS as adopted by the European Union. These financial statements were presented in millions of Danish Kroner, being the local currency in Denmark, except where otherwise stated. B&O's consolidated financial statements for the year ended 31 May 2014 are available free of charge, in printable format on B&O's website (http://www.bang-olufsen.com/en/investors/company-announcements/annual-reports).

Management's Statement

The Board of Directors and Executive Management have today considered and approved the annual report of Bang & Olufsen A/S for the financial year 1 June 2013 – 31 May 2014.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 May 2014 as well as of their financial performance and their cash flow for the financial year 1 June 2013 – 31 May 2014.

We believe that the management commentary contains a true and fair review of the development and performance of the Group's and the parent company's business activities and financial situation, the earnings for the year and the financial position of the parent company and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the parent company face.

We recommend the annual report for adoption at the Annual General Meeting.

Struer, 13 August 2014

Executive Management:

Tue Mantoni	Anders Aakær Jensen
President & CEO	*Executive Vice President & CFO*

Board of Directors:

Ole Andersen	Jim Hagemann Snabe
Chairman	*Deputy Chairman*
Jesper Jarlbæk	André Loesekrug-Pietri
Rolf Eriksen	Majken Schultz
Knud Olesen	Jesper Olesen
Per Østergaard Frederiksen	

To the shareholders of Bang & Olufsen a/s

Report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and parent company financial statements of Bang & Olufsen a/s for the financial year 1 June 2013 – 31 May 2014 which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes, including the accounting principles, for the Group as well as for the parent company. The consolidated financial statements and parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies. Further, management is responsible for such internal control as it determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements and parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements according to Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and parent company financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatements of the consolidated financial statements and parent company financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and parent company financial statements that give a true and fair view. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the consolidated financial statements and parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements and parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 May 2014, and of the results of their operations and cash flows for the financial year 1 June 2013 – 31 May 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

Statement on the management report

Pursuant to the Danish Financial Statements Act, we have read the management report. We have not performed any further procedures in addition to the audit of the consolidated financial statements and parent company financial statements.

On this basis, it is our opinion that the information provided in the management report is consistent with the consolidated financial statements and parent company financial statements.

Copenhagen, 13 August 2014

Ernst & Young
Godkendt Revisionspartnerselskab

Steen Skorstengaard	Niels-Jørgen Andersen
State authorised public accountant	State authorised public accountant

CONSOLIDATED INCOME STATEMENT

1 June – 31 May

(DKK million)	*Notes*	**2013/14**	**2012/13**
Revenue	*2.1*	**2,863.8**	**2,813.9**
Production costs	*2.2*	(1,639.5)	(1,718.0)
Gross profit		**1,224.3**	**1,095.9**
Development costs	*2.2, 2.3*	(369.5)	(442.4)
Distribution and marketing costs	*2.2*	(780.5)	(754.7)
Administration costs	*2.2*	(71.9)	(85.9)
Operating profit (EBIT)		**2.5**	**(187.0)**
Share of result after tax in associated companies		3.2	1.3
Financial income	*4.2*	5.6	8.6
Financial expenses	*4.2*	(34.5)	(33.2)
Financial items, net		(28.9)	(24.6)
Earnings before tax (EBT)		**(23.2)**	**(210.4)**
Income tax	*2.5*	(5.8)	51.5
Earnings for the year		**(29.0)**	**(158.9)**
Earnings per share			
Earnings per share (EPS) and earnings per share from continuing operations, DKK	*2.6*	(0.7)	(4.3)
Diluted earnings per share (EPS-D) and diluted earnings per share from continuing operations, DKK	*2.6*	(0.7)	(4.3)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 June – 31 May

(DKK million)	*Notes*	**2013/14**	**2012/13**
Earnings for the year		**(29.0)**	**(158.9)**
Items that will be reclassified subsequently to the income statement:			
Exchange rate adjustment of investment in foreign subsidiaries		(9.6)	(3.0)
Change in fair value of derivative financial instruments used as cash flow hedges		(2.7)	(4.7)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue		1.7	(5.8)
Transfer to production costs		(2.9)	6.2
Income tax on items that will be reclassified to the income statement	*2.5*	1.0	1.1
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit plans		(0.1)	(0.5)
Income tax on items that will not be reclassified to the income statement	*2.5*	0.0	0.2
Other comprehensive income for the year, net of tax		**(12.6)**	**(6.5)**
Total comprehensive income for the year		**(41.7)**	**(165.5)**

CONSOLIDATED BALANCE SHEET
At 31 May

(DKK million)	*Notes*	**31/5/14**	**31/5/13**
Goodwill		63.5	51.9
Acquired rights		14.5	20.7
Completed development projects		406.2	484.7
Development projects in progress		317.6	178.2
Intangible assets	*3.1*	**801.8**	**735.5**
Land and buildings		114.7	198.2
Plant and machinery		123.5	155.6
Other equipment		26.8	24.4
Leasehold improvements		39.5	30.2
Tangible assets in course of construction and prepayments of tangible assets		29.8	67.5
Tangible assets	*3.2*	**334.3**	**475.9**
Investment property	*3.3*	**38.6**	**40.0**
Investments in associates		10.2	7.0
Other financial receivables	*3.4*	44.2	42.7
Financial assets		**54.4**	**49.7**
Deferred tax assets	*2.5*	**180.4**	**183.4**
Total non-current assets		**1,409.5**	**1,484.4**
Inventories	*3.5.1*	**666.2**	**572.1**
Trade receivables	*3.5.2*	537.4	443.9
Receivables from associates	*5.4*	1.9	1.8
Corporation tax receivable		21.3	23.8
Other receivables		65.8	41.7
Prepayments		69.5	43.2
Total receivables		**696.0**	**554.4**
Cash		**120.4**	**145.9**
Total current assets		**1,482.6**	**1,272.4**
Total assets		**2,892.1**	**2,756.8**

(DKK million)	*Notes*	**31/5/14**	**31/5/13**
Share capital	*4.5*	392.7	392.7
Foreign currency translation reserve		12.4	22.1
Cash flow hedge reserve		0.0	3.0
Retained earnings	*4.6*	1,199.2	1,222.4
Total equity		**1,604.4**	**1,640.1**
Pensions	*3.6*	13.3	12.4
Deferred tax	*2.5*	7.7	13.8
Provisions	*3.7*	39.8	57.9
Mortgage loans	*4.1.1*	197.8	206.1
Other non-current liabilities		1.9	3.1
Total non-current liabilities		**260.5**	**293.3**
Mortgage loans	*4.1.1*	8.2	6.8
Loans from banks	*4.1.2*	220.0	150.0
Overdraft facilities		68.5	56.2
Provisions	*3.7*	28.8	39.4
Trade payables		434.0	295.3
Corporation tax payable		18.1	25.5
Other liabilities		215.8	226.9
Deferred income		33.9	23.1
Total current liabilities		**1,027.2**	**823.2**
Total liabilities		**1,287.8**	**1,116.7**
Total equity and liabilities		**2,892.1**	**2,756.8**

CONSOLIDATED CASH FLOW STATEMENT

1 June – 31 May

(DKK million)	*Notes*	**2013/14**	**2012/13**
Earnings for the year		(29.0)	(158.9)
Amortisation, depreciation and impairment losses		342.1	331.9
Adjustments for non-cash items	*5.1*	(13.9)	(66.9)
Change in receivables		(141.2)	80.5
Change in inventories		(63.2)	92.8
Change in trade payables etc		127.1	(117.9)
Cash flow from operations		221.9	161.5
Interest received		5.6	8.6
Interest paid		(34.5)	(33.2)
Income tax paid		(9.5)	(9.7)
Cash flow from operating activities		**183.5**	**127.2**
Purchase of intangible non-current assets		(310.5)	(263.2)
Purchase of tangible non-current assets		(82.3)	(83.8)
Acquisition of activity	*5.2*	(41.0)	–
Sales of tangible non-current assets		142.7	4.8
Received reimbursements, intangible non-current assets		7.4	10.9
Change in financial receivables		(0.9)	2.7
Cash flow from investing activities		**(284.6)**	**(328.6)**
Free cash flow		**(101.1)**	**(201.5)**
Repayment of long-term loans		(6.8)	(6.6)
Proceeds from short-term borrowings		70.0	–
Capital increase		–	178.7
Purchase of own shares		–	(1.3)
Sale of own shares		1.2	0.5
Cash flow from financing activities		**64.4**	**171.2**

(DKK million)	*Notes*	**2013/14**	**2012/13**
Change in cash and cash equivalents		**(36.7)**	**(30.3)**
Cash and cash equivalents 1 June		89.7	121.3
Exchange rate adjustment, cash and cash equivalents		(1.1)	(1.4)
Cash and cash equivalents 31 May		**51.9**	**89.7**
Cash and cash equivalents:			
Cash		120.4	145.9
Current overdraft facilities		(68.5)	(56.2)
Cash and cash equivalents 31 May		**51.9**	**89.7**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
Equity 1 June 2013	**392.7**	**22.1**	**3.0**	**1,222.4**	**1,640.1**
Earnings for the year	–	–	–	(29.0)	(29.0)
Other comprehensive income	–	(9.6)	(4.0)	(0.1)	(13.7)
Other comprehensive income, tax	–	–	1.0	0.0	1.0
Comprehensive income for the year	–	(9.6)	3.0	(29.1)	(41.7)
Grant of share options	–	–	–	4.2	4.2
Reversal of dividend	–	–	–	0.6	0.6
Sale of own shares	–	–	–	1.2	1.2
Equity 31 May 2014	**392.7**	**12.4**	**0.0**	**1,199.2**	**1,604.4**
Equity 1 June 2012	**362.4**	**25.1**	**6.2**	**1,232,2**	**1,626.0**
Restatement of opening equity (IAS 19)	–	–	–	(1.0)	(1.0)
Equity 1 June 2012 – adjusted	362.4	25.1	6.2	1,231.2	1,625.0
Earnings for the year	–	–	–	(158.9)	(158.9)
Other comprehensive income	–	(3.0)	(4.3)	(0.5)	(7.8)
Other comprehensive income, tax	–	–	1.1	0.2	1.3
Comprehensive income for the year	–	(3.0)	(3.2)	(159.3)	(165.5)
Capital increase	30.3	–	–	152.0	182.3
Costs relating to capital increase	–	–	–	(3.6)	(3.6)
Grant of share options	–	–	–	2.8	2.8
Purchase of own shares	–	–	–	(1.3)	(1.3)
Sale of own shares	–	–	–	0.5	0.5
Equity 31 May 2013	**392.7**	**22.1**	**3.0**	**1,222.4**	**1,640.1**

SECTION 1

Basis of reporting

This section introduces Bang & Olufsen's financial accounting policies in general, as well as an overview of management's key accounting estimates and the new IFRS requirements. All group companies follow the same Group accounting policies. A detailed description of accounting policies related to specific reported amounts is presented in each note to the relevant financial items.

1.1 Basis of reporting

Basic principles

The consolidated financial statements of the Bang & Olufsen Group and the financial statements for 2013/14 for Bang & Olufsen a/s have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish requirements for the presentation of financial statements for listed companies (class D entities) cf. the Statutory Order on Adoption of IFRS (the Danish announcement on Adoption of IFRS) issued in accordance with the Danish Financial Statements Act.

The consolidated and the separate financial statements are presented in DKK which is the presentation currency for the Group and the functional currency for the parent company.

Assets are recognized in the balance sheet, when it is probable that future economic benefits resulting from a past event will flow to the Group. Liabilities are recognized in the balance sheet when it is probable that the Group will give up future economic benefits as a consequence of a legal or constructive obligation resulting from a past event. The value of the assets and liabilities should be able to be measured reliably.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention with the exception of derivatives which are measured at fair value.

Consolidation

The consolidated financial statements comprise the parent company, Bang & Olufsen a/s, and the companies (subsidiaries), which are controlled by the parent company. The parent company is presumed to have control, when it directly or indirectly holds more than 50 % of the voting rights or in other ways can exercise or is exercising controlling influence. Companies, in which the Group directly or indirectly holds between 20 % and 50 % of the voting rights and has a significant influence but not control, are regarded as associates.

The consolidated financial statements have been prepared on the basis of the financial statements of the parent company and its subsidiaries. The consolidated financial statements have been prepared by adding uniform items. The financial statements that are used for the consolidation are prepared in accordance with the Group's accounting principles. In the process of consolidation, intra-group income and expenses, intra-group accounts receivable and payable and dividend and profits and losses from transactions between the consolidated companies have been eliminated. In the consolidated financial statements the subsidiaries' items are recognised 100 %.

Translation of foreign currency

On initial recognition, transactions in a currency other than the company's functional currency are translated at the exchange rate prevailing at the transaction date. Receivables, payables and other monetary items in foreign currency, which have not been settled at the balance sheet date, are translated at the exchange rates prevailing at this date. Currency gains and losses arising between the transaction date and the date of payment or the balance sheet date, respectively, are recognised in the profit and loss account as financial income or financial costs. Tangible and intangible non-current assets, inventories and other non-monetary assets, which have been purchased in a foreign currency, and which are measured at historical cost prices, are translated at the exchange rate prevailing at the transaction date.

When recognising companies that present their financial statements in another functional currency than Danish kroner (DKK) in the consolidated financial statements, profit and loss accounts are translated using average exchange rates for the year. The balance sheet items are translated using the exchange rates prevailing on the balance sheet date. Goodwill is regarded as belonging to the acquired company and is translated using the exchange rates prevailing on the balance sheet date.

Translation differences arising from the translation of the foreign subsidiaries' balance sheet items at the beginning of the year to the exchange rates prevailing at the balance sheet date, and from the translation of the profit and loss accounts from average exchange rates to the balance sheet date exchange rates, are recognised in other comprehensive income. Similarly, translation differences that arise on changes made directly to the foreign company's equity are recognised in other comprehensive income.

Investments in associated companies

Investments in associated companies are recognised and measured according to the equity method in the consolidated financial statements, i.e. at the proportional share of the accounting net asset value of the companies, in accordance with the Group's accounting principles with the deduction or addition of proportional intra-group gains and losses and with the addition of a carrying amount of goodwill.

The proportional share of the companies result after tax with the reduction of any impairment losses on goodwill is recognised in the income statement.

Investments in associated companies with a negative net asset value are measured at DKK 0. Receivables and other non-current financial assets, which are regarded as being part of the total investment in the associated company, are written down by the remaining negative net asset value. Trade receivables and other receivables are written down to the extent they are assessed to be irrecoverable.

A provision to cover the remaining negative net asset value is recognized only to the extent that the Group has a legal or constructive obligation to cover the obligations of the company in question.

New investments in associated companies are accounted for by using the acquisition method.

Production costs

Production costs comprise wages, consumption of stock and indirect costs, including salaries, depreciation/amortisation and impairment losses, which are incurred with the purpose of achieving the net turnover for the year.

Distribution and marketing costs

Distribution and marketing costs comprise costs relating to sales and distribution of the Group's products, including salaries for sales personnel, advertising and exhibition costs, depreciation/amortisation and impairment losses. Costs in subsidiaries, which are responsible exclusively for the sale of the Group's products, are allocated to distribution and marketing costs.

Administration costs etc.

Administration costs etc. comprise costs for the administrative personnel, management and office costs etc. including depreciation/amortisation and impairment losses.

New or amended the European Union endorsed accounting standards

Bang & Olufsen has adopted all new, amended standards, revised accounting standards, and interpretations (IFRIC) as endorsed by the European Union and and effective for the financial year 1 June 2013 – 31 May 2014.

In 2013/14 the following standards and amendments with relevance for Bang & Olufsen were brought into effect and implemented:

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- Amendments to IAS 19 'Employee benefits'
- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement

None of these have had a significant impact on recognition and measurement but they have led to further specifications in the notes and in the consolidated statement of comprehensive income. Only the changes to IAS 19 'Employee benefits' regarding pension obligations have had an effect on recognition and measurement. The implementation of IAS 19 'Employee benefits (amended 2011)' means that Bang & Olufsen no longer is using the corridor method for actuarial gains and losses. All changes to expected pension obligations and to the plan assets will be recognised in other comprehensive income. Previously the corridor method allowed delayed recognition of certain actuarial gains and losses. The comparative numbers for financial year 2012/13 have been restated, and accumulated actuarial gains and losses have been recognised directly in equity per 1 June 2012. The effect on the opening equity was negative DKK 1.0 million, the effect on result after tax and on total comprehensive income for the financial year 2012/13 was positive DKK 0.9 million and negative DKK 0.5 million respectively.

Bang & Olufsen has thoroughly considered the impact of the new IFRS standards and interpretations, and has concluded that other standards which are effective for the financial year 1 June 2013 – 31 May 2014 are either of no relevance to the Group, or exert no material impact on the financial statements for the current year.

IASB has issued a number of new standards, amendments to existing standards and bases for conclusions, which have not yet come into force, but which will become effective in the financial year 2014/15 or later. New and revised standards are expected to be implemented on the effective date as endorsed by the European Union. Management is currently assessing the potential impact. It is Management's immediate assessment that the changes will not have any significant impact on recognition and measuring.

1.2 Critical accounting estimates and judgements

When applying the Group's accounting principles it is necessary that management makes a number of accounting assessments and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing deferred tax assets, development projects, inventories, trade receivables and provisions.

Management bases its estimates and assumptions on historical experience and other relevant factors that are believed to be reasonable under the given circumstances. The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

The critical accounting estimates and judgements are described under the sections to which they relate:

Accounting estimate/judgement	*Note*
Deferred tax assets	*2.5*
Development projects	*3.1*
Inventories	*3.5.1*
Trade receivables	*3.5.2*
Provision for warranty and fairness	*3.7*
Sale- and leaseback transaction	*5.3*

SECTION 2

Results for the year

This section contains notes relating to earnings for the year including operating segments, development and staff costs and taxes for the year. A detailed description of the results for the year is given in the Financial Review on pages 9-11.

2.1 Operating segment information

Accounting policies

Revenue recognition

Revenue is recognised in the income statement, when delivery and transfer of the risks of ownership to the customer has taken place, if the revenue can be measured reliably, and payment is expected to be received. Revenue is recognised net of value added tax and discounts related to the sale.

Revenue regarding sales of goods is recognised in the income statement, if the transfer of the risks of ownership to the customer has taken place before the end of the financial year.

Segment information

Segment information has been prepared in accordance with the Group's accounting principles and follows the Group's management structure and the internal management reporting that is used by top operational management to evaluate results and resource allocation.

The Group's reportable segments are:

- Business to Consumer (B2C)
  - AV (Audio-Video)
  - B&O PLAY
- Business to Business (B2B)
  - ICEpower
  - Automotive

The segments are split based on differences in the customers and products of the segments. B2C is made up of AV and B&O PLAY which has been created with a view to increase revenue and attract new potential customers to the existing Bang & Olufsen distribution. The B&O PLAY products are sold through Bang & Olufsen's B1 shops and through complementary retail sales channels. The products are also sold through a B&O PLAY branded online shop. B2B is Automotive which covers the cooperation with a number of Automotive partners, and ICEpower group which revenue mainly comes from sales of components to the electronics industry including the rest of the Bang & Olufsen Group, independently of the Bang & Olufsen brand.

The segments performance measurement is gross profit. Segment income and costs include the items that can be directly attributed to the individual segment.

The segments asset measurement is a sum consisting of completed development projects, development projects in progress and trade receivables. The internal management reporting does not include segment liabilities.

Trade between the Group's reportable segments is carried out at arm's length conditions.

The Group's geographical areas are:

- Europe
- North America
- BRIC
- Rest of World

BRIC includes Brazil, Russia, India and Greater China (Mainland China, Hong Kong, Korea and Taiwan).

The geographical areas are split on the basis of the location of the customers and assets.

As the Group's domicile is Denmark disclosure is also made of total non-current assets and net revenue split between Denmark and the Rest of World.

(DKK million)

	2013/14						
	Consumer business (B2C)		Business to business (B2B)				
	AV	B&O PLAY	Automotive	ICEpower	Unallocated	Elimination	Total
Net revenue	1,632.5	535.1	612.5	102.1	–	–	2,882.2
Effect of differences in exchange rates used in the internal management reporting	–	–	–	–	(5.9)	–	(5.9)
Internal revenue	–	–	–	(12.5)	–	–	(12.5)
Revenue, Group	**1,632.5**	**535.1**	**612.5**	**89.6**	**(5.9)**	**–**	**2,863.8**
Gross profit	764.2	170.2	234.7	55.3	–	–	1,224.3
Effect of differences in exchange rates used in the internal management reporting	–	–	–	–	–	–	–
Gross profit, Group	**764.2**	**170.2**	**234.7**	**55.3**	**–**	**–**	**1,224.3**
Gross margin – %	**46.8**	**31.8**	**38.3**	**54.2**	**–**	**–**	**42.8**
Amortisation, depreciation and impairment losses	(234.3)	(44.3)	(60.2)	(3.3)	–	–	(342.1)
Other non-allocated capacity costs	–	–	–	–	(879.8)	–	(879.8)
Share of result after tax in associated companies	–	–	–	–	3.2	–	3.2
Financial income	–	–	–	–	5.6	–	5.6
Financial expenses	–	–	–	–	(34.5)	–	(34.5)
Earnings before tax	**–**	**–**	**–**	**–**	**(905.5)**	**–**	**(23.2)**
Completed development projects	260.5	28.1	112.2	5.4	–	–	406.2
Development projects in progress	173.9	8.7	112.1	22.9	–	–	317.6
Total segment assets	434.3	36.8	224.4	28.3	–	–	723.8
Unallocated assets	–	–	–	–	2,168.3	–	2,168.3
Total assets, Group	**434.3**	**36.8**	**224.4**	**28.3**	**2,168.3**	**–**	**2,892.1**
Denmark	1,107	21	87	34	–	–	1,279
Rest of world	897	2	42	3	–	–	943
Average number of full-time employees, Group	**2,003**	**23**	**129**	**37**	**–**	**–**	**2,192**

(DKK million)

	2012/13						
	Consumer business (B2C)		Business to business (B2B)				
	AV	B&O PLAY	Automotive	ICEpower	Unallocated	Elimination	Total
Net revenue	1,648.9	532.3	545.7	86.8	–	–	2,813.7
Effect of differences in exchange rates used in the internal management reporting	–	–	–	–	11.6	–	11.6
Internal revenue	–	–	–	(11.4)	–	–	(11.4)
Revenue, Group	**1,648.9**	**532.3**	**545.7**	**75.4**	**11.6**	**–**	**2,813.9**
Gross profit	687.6	157.6	198.6	46.8	–	–	1,090.6
Effect of differences in exchange rates used in the internal management reporting	–	–	–	–	5.3	–	5.3
Gross profit, Group	**687.6**	**157.6**	**198.6**	**46.8**	**5.3**	**–**	**1,095.9**
Gross margin – %	**41.7**	**29.6**	**36.4**	**53.9**	**–**	**–**	**38.9**
Amortisation, depreciation and impairment losses	(235.9)	(34.9)	(45.5)	(15.6)	–	–	(331.9)
Other non-allocated capacity costs	–	–	–	–	(951.1)	–	(951.1)
Share of result after tax in associated companies	–	–	–	–	1.3	–	1.3
Financial income	–	–		–	9.7	(1.1)	8.6
Financial expenses	–	–		–	(34.4)	1.1	(33.2)
Earnings before tax	**–**	**–**	**–**	**–**	**–**	**–**	**(210.4)**
Completed development projects	268.8	56.5	157.3	2.1	–	–	484.7
Development projects in progress	102.6	3.4	53.3	18.9	–	–	178.2
Total segment assets	371.4	59.9	210.6	21.0	–	–	662.9
Unallocated assets	–	–	–	–	2,094.2	–	2,093.9
Total assets, Group	**371.4**	**59.9**	**210.6**	**21.0**	**2,094.2**	**–**	**2,756.8**
Average number of employees:							
Denmark	1,192	11	94	25	–	–	1,322
Rest of world	727	1	36	3	–	–	767
Average number of employees, Group	**1,919**	**12**	**130**	**28**	**–**	**–**	**2,089**

	Total non-current assets		Total revenue	
(DKK million)	**2013/14**	**2012/13**	**2013/14**	**2012/13**
Geographical information				
Consumer business (B2C)				
Europe	876.5	999.3	1,338.6	1,404.7
North America	7.6	5.1	160.2	180.4
BRIC	42.3	16.0	307.3	296.5
Rest of world	2.7	6.2	225.8	240.6
Total Bang & Olufsen distribution	929.1	1,026.6	2,031.9	2,122.2
B&O PLAY	–	–	135.7	59.0
Total 3rd party distribution and e-commerce	–	–	135.7	59.0
Total consumer business (B2C)	**929.1**	**1,026.6**	**2,167.6**	**2,181.2**
Business to business (B2B)				
Automotive	224.4	210.6	612.5	545.7
ICEpower	31.4	21.0	102.1	86.8
Total business to business (B2B)	**255.8**	**231.6**	**714.5**	**632.5**
Elimination of internal revenue	–	–	(12.5)	(11.4)
Exchange rate adjustments	–	–	(5.9)	11.6
Total	**1,184.9**	**1,258.2**	**2,863.8**	**2,813.9**
Denmark	1,107.5	1,107.2	272.2	253.7
Rest of world	77.4	151.0	2,591.6	2,560.2
Total	**1,184.9**	**1,258.2**	**2,863.8**	**2,813.9**

Non-current assets do not include deferred tax assets, pension assets and non-current financial instruments.

Bang & Olufsen Group has no transactions with individual customers which make up more than 10% of the Group's revenue.

The Group's total revenue is almost exclusively derived from the sale of goods (99.9 per cent in 2013/14 and 99.9 per cent in 2012/13).

2.2 Staff costs

(DKK million)	**2013/14**	**2012/13**
Wages and salaries etc.	719.8	733.5
Share-based payment	4.1	2.8
Pensions	47.5	55.7
Other social security costs	40.7	46.6
Total	**812.1**	**838.6**
Expensed as follows:		
Production costs	303.7	264.1
Development costs	207.5	236.4
Distribution- and marketing costs	249.7	262.3
Administration costs	51.1	75.8
Total	**812.1**	**838.6**
Average number of full-time employees	**2,192**	**2,089**

(DKK million)

	2013/14			**2012/13**		
Whereof to:	**Board**	**Executive Management**	**Other key employees**	**Board**	**Executive Management**	**Other key employees**
Wages, salaries and fees	3.5	8.4	12.9	3.5	10.2	10.6
Pensions	–	–	1.3	–	–	0.8
Bonus	–	0.5	1.2	–	–	1.1
Total	3.5	8.9	15.4	3.5	10.2	12.5
Share-based payment	–	2.3	1.4	–	0.3	0.9
Total remuneration	**3.5**	**11.1**	**16.8**	**3.5**	**10.5**	**13.5**

In 2013/14 there were eight members of staff in the group 'Other key employees', which is unchanged from last year.

(DKK million) Specified as follows:	**2013/14**	**2012/13**
Remuneration of Executive Management:		
Tue Mantoni	7.7	4.8
Henning Bejer Beck	2.8	3.2
John Bennett-Therkildsen	0.6	2.5
Total	**11.1**	**10.5**

The value of the share-based payment expresses the group income statement effect of allocated share options. 24.652 share options have been exercised in the year with an average exercise price of DKK 47. The remaining options have not been, and may never be, exercised.

Refer to note 4.6 for further information about the Group's share option programmes.

(DKK million)	**2013/14**	**2012/13**
Remuneration of the Board:		
Ole Andersen *(chairman)*	0.8	0.8
Jim Hagemann Snabe *(deputy chairman)*	0.6	0.5
Jesper Jarlbæk	0.4	0.4
André Loesekrug-Pietri	0.3	0.2
Rolf Eriksen	0.3	0.3
Majken Schultz (appointed 19.09.2013)	0.2	–
Knud Olesen	0.3	0.3
Jesper Olesen	0.3	0.3
Per Østergaard Frederiksen	0.3	0.3
Alberto Torres (resigned 19.09.2013)	0.1	0.4
Peter Skak Olufsen (resigned 21.09.2012)	–	0.1
Total	**3.5**	**3.5**

2.3 Development costs

Accounting policies

Development costs, which do not meet the criteria for capitalization as defined in note 3.1 are recognised in the income statement as development costs along with amortisation and impairment losses on capitalised development projects.

(DKK million)	**2013/14**	**2012/13**
Incurred development costs before capitalization	390.3	475.8
Hereof capitalized	(259.1)	(250.8)
Incurred development costs after capitalization	131.2	225.0
Capitalization (%)	*66.4*	*52.7*
Total amortisation charges and impairment losses on development projects	238.3	217.4
Total	**369.5**	**442.4**

In addition to the above incurred development costs, there have been additions in the year of DKK 47.5 million to capitalized development costs ref note 3.1, relating to key components and technologies acquired from 3rd parties.

2.4 Fees to auditors appointed at the Annual General Meeting

(DKK million)	**2013/14**	**2012/13**
Statutory audit	2.1	1.9
Other assurance services	0.5	0.2
Tax services	0.4	1.1
Other services	0.8	0.4
Total	**3.8**	**3.5**

Ernst & Young were re-appointed as auditors at the Annual General Meeting on 19 September 2013.

2.5 Taxation

Accounting policies

Tax for the year, which includes the current tax and changes in deferred tax for the year, is recognised in profit or loss with the share that is attributable to the result for the year and in other comprehensive income or directly in equity with the share, which can be attributed to entries made in other comprehensive income or directly in equity, respectively.

Current income tax payable and current income tax receivable is recognised in the balance sheet as the tax calculated on the year's taxable income adjusted for prepaid tax.

When calculating current tax for the year the tax rates and regulations prevailing at the balance sheet date in the different countries are used.

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the tax base and the carrying amount of assets and liabilities, except for deferred tax on temporary differences that arise either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, and where the temporary difference on initial recognition affects neither accounting profit or loss nor the taxable income.

Deferred tax on temporary differences relating to investments in subsidiaries and associates is recognised, unless the parent company is able to control when the deferred tax is realised, and it is probable that the deferred tax will not be realised as current tax within the foreseeable future.

The deferred tax is calculated based on the planned use of each asset and settlement of each liability, respectively.

The deferred tax is measured using the tax rates and regulations in the different countries, which – based on the laws that have been enacted or substantively enacted at the balance sheet date – are expected to prevail, when the deferred tax is expected to be realized as current tax. The change in deferred tax due to changes in tax rates or regulations is recognised in profit or loss, unless the deferred tax is attributable to transactions, which have previously been recognised directly in equity or in other comprehensive income. In the latter case the change is also recognised directly in equity or in other comprehensive income, respectively.

Deferred tax assets, including the tax value of any tax loss carry-forwards, are recognised in the balance sheet at the value, the asset is expected to be realised at, either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date it is assessed, if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised.

The parent company is jointly taxed with all Danish subsidiaries. The current Danish corporation tax is distributed between the jointly taxed companies in proportion to their taxable income.

Critical accounting estimates and judgements

Deferred tax assets are recognised in the balance sheet at the value, the asset is expected to be realised at, either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date it is assessed, if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised. The deferred tax assets amount to DKK 180.4 million as at 31 May 2014 (DKK 183.1 million as at 31 May 2013).

(DKK million)	**2013/14**	**2012/13**
Income statement and other comprehensive income		
Current tax charge/credit	(17.1)	(5.0)
Adjustment for prior periods, current tax	(0.5)	–
	(17.6)	(5.0)
Change in deferred tax	10.8	(44.8)
Adjustment of deferred tax, prior year	(8.0)	(2.8)
Adjustment from change in tax rate	19.6	–
	22.4	(47.6)
Total taxation charge in the income statement and OCI	**4.8**	**(52.6)**
Tax recognised in:		
Income statement	5.8	(51.5)
Other comprehensive income	(1.0)	(1.1)
Total	**4.8**	**(52.6)**

Tax on other comprehensive income relates to change in fair value of derivative financial instruments used as cash flow hedges, and is recognised in retained earnings.

The taxation charge in the income statement that would arise at the standard rate of DK corporation tax is reconciled to the actual tax charge as follows:

(DKK million)

	2013/14		2012/13	
Tax calculated on earnings before tax	24.5%	(5.6)	25.0%	(52.9)
Non-deductible costs and non-taxable income	(7.8%)	1.8	(1.0%)	2.2
Deviating tax rates in foreign subsidiaries	(2.2%)	0.5	0.2%	(0.5)
Changes in tax rates	(84.8%)	19.6	(0.1%)	0.2
Adjustments to prior periods	34.3%	(8.0)	1.3%	(2.8)
Non-capitalised tax loss carry-forwards	7.9%	(1.8)	1.1%	(2.2)
Foreign withholding tax	0.5%	(0.1)	0.0%	–
Non-taxable dividends from subsidiaries	3.9%	(0.9)	0.3%	(0.6)
Other	(1.4%)	0.3	(2.3%)	5.1
Annual effective tax rate/taxation charge in income statement	**(25.1%)**	**5.8**	**24.5%**	**(51.5)**

Balance sheet

(DKK million)

Deferred tax assets	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 2012	10.7	10.7	11.2	29.6	67.0	10.7	139.9
Recognised in the income statement	64.7	1.6	(3.5)	(9.4)	(0.3)	(11.0)	42.1
Recognised in other comprehensive income	–	–	–	–	–	1.1	1.1
Deferred tax assets 31 May 2013	75.4	12.3	7.7	20.2	66.7	0.8	183.1
Changes in tax rates	(13.0)	(1.0)	–	(0.5)	(5.1)	–	(19.6)
Recognised in the income statement	36.3	0.3	1.4	(9.4)	(12.5)	0.8	16.9
Deferred tax assets 31 May 2014	**98.7**	**11.6**	**9.1**	**10.3**	**49.1**	**1.6**	**180.4**

Deferred tax assets relate to the subsidiaries in Norway, Sweden, Germany, Switzerland, the UK, Belgium, France, Italy, Spain, the US, Australia, Singapore and the jointly-taxed Danish companies. Deferred tax assets have been calculated based on local tax rates.

In 2013/14 a deferred tax asset of gross DKK 37.3 million has been recognised in the jointly-taxed Danish companies based on tax loss carry-forwards, which can be indefinitely carried forward (2012/13; DKK 53.9 million). This deferred tax asset has been recognised on the basis of management's expectations of the Group's long-term earnings up to 5 years.

In 2013/14 tax assets of DKK 4.4 million have been reactivated regarding the US subsidiary (2012/13; DKK 6.4 million). The recognition is based on the expectations to future earnings in the US subsidiary. Unrecognised deferred tax assets amount to DKK 66.3 million (2012/13; DKK 72.2 million).

The basis for the unrecognised deferred tax assets includes tax losses of DKK 134.4 million (2012/13; DKK 142.2 million). The tax losses can be carried forward for a period of one to 20 years.

(DKK million)

Deferred tax	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry forwards	Other	Total
Deferred tax 1 June 2012	8.7	(0.5)	–	7.2	–	–	15.4
Recognised in the income statement	5.4	0.1	(0.3)	(8.5)	(0.7)	2.4	(1.6)
Deferred tax 31 May 2013	14.1	(0.4)	(0.3)	(1.3)	(0.7)	2.4	13.8
Recognised in the income statement	(3.8)	–	(0.5)	0.3	0.7	(2.8)	(6.1)
Deferred tax 31 May 2014	**10.3**	**(0.4)**	**(0.8)**	**(1.0)**	**–**	**(0.4)**	**7.7**

Deferred tax has been provided for based on local tax rates.

Deferred tax on temporary differences relating to investments in subsidiaries and associates has not been recognised, since the parent company is able to control when the deferred tax is realised, and it is assessed to be probable that the deferred tax will not be realised as current tax within the foreseeable future.

2.6 Earnings per share

(DKK million)

2013/14	**Basic**	**Diluted**
Earnings for the year	(29.0)	(29.0)
Weighted average number of shares in issue – million	39.2	39.2
Dilution due to share options	–	(0.0)
Total weighted average number of ordinary shares in issue – million	39.2	39.2
Earnings per ordinary share	(0.7)	(0.7)

2012/13	**Basic**	**Diluted**
Earnings for the year	(158.9)	(158.9)
Weighted average number of shares in issue – million	37.2	37.2
Dilution due to share options	–	0.1
Total weighted average number of ordinary shares in issue – million	37.2	37.2
Earnings per ordinary share	(4.3)	(4.3)

SECTION 3

Operating assets and liabilities

This section contains notes relating to the assets that form the basis for the activities in the Bang & Olufsen Group and the related liabilities.

3.1 Intangible assets

Accounting policies

Asset class	Recognition	Valuation	Amortisation method	Estimated useful life
Goodwill	When recognising goodwill, the goodwill amount is allocated to those of the Group's activities that generate independent cash flows (cash-generating units). The definition of cash-generating units is in accordance with the managerial structure and the internal management accounting and reporting in the Group.	Goodwill is initially recognised and measured as the difference between on the one hand, the cost price of the acquired company, the value of minority interests in the acquired company and the acquisition-date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities.	N/A	Unlimited – tested for impairment annually.
Development projects (under construction)	Clearly defined and identifiable projects if probable that they can be marketed as new products in a potential market.	Measured at cost price. This comprises costs, including salaries and depreciation/amortisation that relate directly to the development projects, and which are necessary to complete the project from the time when the development project initially meets the criteria for recognition as an asset. Reimbursements and grants are deducted from the cost price.	N/A	N/A until completed – tested for impairment annually.
Development projects (completed)		Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	2-6 years for completed development projects, or over remaining term of intellectual property right if less.
Acquired rights	Software, key money and patents.	Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	Over the shorter of the estimated useful life and the term of the contract.

Critical accounting estimates and judgements

Development costs are capitalised only after technical and commercial feasibility of the projects have been established. In connection with the capitalisation of development costs, the expected useful life of the product is to be determined. Management has assessed that the amortisation period is usually 2-6 years. Management also makes assumptions when assessing the possible impairment of development projects. The applied principles are unchanged from the 2012/13 financial year. Development projects amount to DKK 723.8 million as at 31 May 2014 (DKK 662.9 million as at 31 May 2013). The main additions in the 2013/14 financial year are development projects relating to the Automotive P3 Platform and to the BeoVision Avant.

Impairment

The carrying amount of intangible non-current assets with a definite useful life is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

For development projects in progress and goodwill the recoverable amount is determined at least once a year whether or not there are indications of impairment.

If the asset does not generate cash flow independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted to their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to reduce first any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit, in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount the asset's or the cash-generating unit's carrying amount is increased to the adjusted recoverable amount, however not exceeding the carrying amount the asset or the cash-generating unit would have had, if it had not been impaired. Impairment of goodwill is not reversed.

(DKK million)

	Goodwill	Acquired rights	Completed development projects	Development projects in progress	Total
Cost					
At 1 June 2012	50.6	164.0	924.3	338.9	1,477.8
Exchange rate adjustment to year-end rate	(0.2)	–	–	–	(0.2)
Additions in the year	4.1	2.9	75.9	180.3	263.2
Reimbursements received	–	–	–	(10.9)	(10.9)
Disposals in the year	–	–	(9.5)	(0.7)	(10.2)
Completed development projects	–	–	329.4	(329.4)	–
At 31 May 2013	54.5	166.9	1,320.1	178.2	1,719.7
Exchange rate adjustment to year-end rate	(0.1)	–	–	–	(0.1)
Additions in the year	11.9	4.2	73.2	233.4	322.7
Reimbursements received	–	–	–	(7.4)	(7.4)
Disposals in the year	(0.1)	(7.0)	(374.3)	–	(381.4)
Completed development projects	–	–	86.6	(86.6)	–
At 31 May 2014	**66.2**	**164.1**	**1,105.6**	**317.6**	**1,653.5**
Amortisation and impairment					
At 1 June 2012	(2.8)	(136.2)	(627.5)	–	(766.5)
Exchange rate adjustment to year-end rate	0.2	–	–	–	0.2
Amortisation during the year	–	(10.0)	(217.4)	–	(227.4)
Reversed amortisation on disposals	–	–	9.5	–	9.5
At 31 May 2013	(2.6)	(146.2)	(835.4)	–	(984.2)
Exchange rate adjustment to year-end rate	(0.1)	–	–	–	(0.1)
Amortisation during the year	–	(7.1)	(238.3)	–	(245.4)
Reversed amortisation on disposals	–	3.7	374.3	–	378.0
At 31 May 2014	**(2.7)**	**(149.6)**	**(669.4)**	**–**	**(851.7)**
Net book value					
At 31 May 2014	**63.5**	**14.5**	**406.2**	**317.6**	**801.8**
At 31 May 2013	51.9	20.7	484.7	178.2	735.5

Impairment losses during the year

Goodwill

The majority of the Group's goodwill (DKK 41.7 million) relates to the acquisition of the Dutch distribution in 2004/05. The goodwill is allocated to the cash-generating unit, which includes the activities in Holland. DKK 12.2 million relate to the take over of 20 shops from the previous master dealer Richcom in China. The goodwill is allocated to the cash-generating unit, which includes the activities in BRIC. The goodwill relates in its entirety to the business segment AV. No impairment losses have been recognised on cash-generating units which include goodwill in 2013/14 og 2012/13 in the Group.

The assessment of the recoverable amount of the cash-generating units which include goodwill is based on calculations of value in use, which is calculated based on expected future cash flows according to the "Leaner, Faster, Stronger" strategy and forecasts for the coming 2 financial years. The terminal value is determined on the assumption of a growth of 2.0 % (2012/13; 2.0 %). The growth rate is not expected to exceed the long-term growth rate. A discount rate before tax of 10.0 % is used (7.6 % after tax) (2012/13; 10.0%/7.5 %).

Development projects

No impairment losses have been recognised on development projects in the 2013/14 financial year (2012/13; DKK 0 million).

The assessment of the recoverable amount of the intangible assets excl. goodwill is based on calculations of value in use of the assets. The value in use is calculated based on expected future cash flows from the assets based on the budgets approved by management over the expected lifetime of the assets, and a discount rate before tax of 10.0 % (2012/13; 10.0 %).

(DKK million)	**2013/14**	**2012/13**
Amortisation and impairment losses		
Production costs	4.1	5.8
Development costs	239.2	218.8
Distribution- and marketing costs	1.9	2.5
Administration costs	0.2	0.3
Total	**245.4**	**227.4**

No impairment losses have been recognised in 2013/14 or 2012/13.

3.2 Tangible assets

Accounting policies

Tangible non-current assets are measured at cost price with deduction of accumulated depreciation and impairment losses.

The cost price comprises the acquisition price and costs directly related to the acquisition until the time, when the asset is ready for use. For self-constructed non-current assets, the cost price comprises direct costs for wages, materials, components and sub-suppliers.

Reimbursements and grants concerning tangible non-current assets are deducted from the cost price.

Interest expenses related to financing of the construction of qualifying tangible non-current assets are recognised in the cost price of the assets, if they relate to the period of construction.

The cost price of a tangible non-current asset is divided into individual components, which are depreciated separately, if the expected useful life differs for the individual components.

For tangible non-current assets held under finance leases, the cost price equals the lower of fair value of the assets and the present value of the future minimum lease payments. The interest rate implicit in the lease or the incremental borrowing rate is used as discount rate, when calculating the present value.

Asset class	Asset type	Depreciation policy
Land & Buildings	Land	None
	Buildings	Straight-line over 40 years
	Interior refurbishment/ special installations	Straight-line over 10 years
Plant & machinery	Single purpose production tools	Straight-line over 3-6 years
	Other	Straight-line over 8-10 years
Other equipment	Other equipment	Straight-line over 3-10 years
Leasehold improvements	Leasehold improvements	Straight-line over term of lease, max 10 years
Tangible assets in course of construction	Tangible assets in course of construction	None

Impairment

The carrying amount of tangible non-current assets is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to reduce first any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit, in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount the asset's or the cash-generating unit's carrying amount is increased to the adjusted recoverable amount, however not exceeding the carrying amount the asset or the cash-generating unit would have had, had it not been impaired.

No impairment losses have been recognised in relation to tangible assets during 2013/14 or in 2012/13.

(DKK million)

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 1 June 2012	479.9	1,176.0	204.3	69.3	96.8	2,026.3
Exchange rate adjustment to year-end rate	–	0.1	(2.0)	(2.3)	–	(4.2)
Additions in the year	2.0	40.5	5.3	20.8	16.0	83.8
Completed assets	0.9	43.4	–	0.2	(44.5)	–
Disposals in the year	–	(19.1)	(5.0)	(14.4)	(0.8)	(39.3)
At 31 May 2013	482.8	1,240.9	202.6	72.8	67.5	2,066.6
Exchange rate adjustment to year-end rate	(6.5)	(3.2)	(0.4)	(1.5)	–	(11.6)
Reclassification	–	–	0.3	(0.3)	–	–
Additions in the year	4.2	22.7	9.9	25.7	24.8	87.3
Completed assets	0.5	11.6	3.7	–	(15.8)	–
Disposals in the year	(99.4)	(21.7)	(8.4)	(16.9)	(46.7)	(193.1)
At 31 May 2014	**381.6**	**1,250.3**	**207.7**	**79.8**	**29.8**	**1,949.2**
Amortisation and impairment						
At 1 June 2012	(269.6)	(1,030.4)	(175.0)	(51.8)	–	(1,526.8)
Exchange rate adjustment to year-end rate	–	(0.1)	1.3	1.7	–	2.9
Depreciation during the year	(15.0)	(73.0)	(9.3)	(5.9)	–	(103.2)
Reversed depreciation on disposals	–	18.2	4.8	13.4	–	36.4
At 31 May 2013	(284.6)	(1,085.3)	(178.2)	(42.6)	–	(1,590.7)
Exchange rate adjustment to year-end rate	1.8	2.9	0.4	0.6	–	5.7
reclassification	–	–	(0.1)	0.1	–	–
Depreciation during the year	(12.7)	(64.9)	(9.5)	(12.7)	–	(99.8)
Reversed depreciation on disposals	28.6	20.5	6.5	14.3	–	69.9
At 31 May 2014	**(266.9)**	**(1,126.8)**	**(180.9)**	**(40.3)**	**–**	**(1,614.9)**
Net book value						
At 31 May 2014	**114.7**	**123.5**	**26.8**	**39.5**	**29.8**	**334.3**
At 31 May 2013	198.2	155.6	24.4	30.2	67.5	475.9
Hereof assets held under finance leases	–	–	0.4	–	–	0.4

There are no contractual obligations regarding purchase of tangible assets.

(DKK million)	**2013/14**	**2012/13**
Depreciation and impairment losses		
Production costs	57.2	59.6
Development costs	12.9	14.9
Distribution- and marketing costs	27.2	25.9
Administration costs	2.5	2.8
Total	**99.8**	**103.2**

No impairment losses have been recognised in 2013/14 or 2012/13.

3.3 Investment property

Accounting policies

Investment property is property held to earn rental income or for capital appreciation.

Investment property is measured at cost price with deduction of accumulated depreciation and impairment losses. Investment property is depreciated on a straight-line basis over 40 years.

(DKK million)	
Cost	
At 1 June 2012	79.9
At 31 May 2013	79.9
At 31 May 2014	**79.9**

(DKK million)	
Depreciation and impairment	
At 1 June 2012	(38.6)
Depreciation during the year	(1.3)
At 31 May 2013	(39.9)
Depreciation during the year	(1.3)
At 31 May 2014	**(41.3)**
Net book value	
At 31 May 2014	**38.6**
At 31 May 2013	40.0

Investment property consist of a house that is used only for rental purposes, and the property that is partly used by the associated company Bang & Olufsen Medicom a/s.

External rental income of DKK 2.3 million has been received from the investment property in 2013/14 (2012/13; DKK 2.0 million), and directly attributed operating expenses were DKK 1.6 million (2012/13; DKK 1.5 million).

The properties are leased on operating leases with a remaining duration of 12 months. According to the existing operating leases a rental income of DKK 2.3 million will be received in 2014/15.

3.4 Other financial receivables

(DKK million)	
Cost	
At 1 June 2012	72.0
Exchange rate adjustment to year-end rate	(1.3)
Changes in the year	(15.9)
At 31 May 2013	54.8
Exchange rate adjustment to year-end rate	1.6
Changes in the year	1.9
At 31 May 2014	**54.5**
Impairment	
At 1 June 2012	(25.4)
Exchange rate adjustment to year-end rate	0.5
Impairment reversals/losses during the year	12.8
At 31 May 2013	(12.1)
Exchange rate adjustment to year-end rate	0.5
Impairment reversals/losses during the year	2.3
At 31 May 2014	**(10.3)**
Net book value	
At 31 May 2014	**44.2**
At 31 May 2013	42.7

The fair value of other financial receivables in the Group amounts to DKK 44.2 million (DKK 42.7 million in 2012/13). The fair value is calculated as the present value of the future expected cash flows from the receivables.

3.5 Working capital

Accounting policies

Inventories

Inventories are measured at the lower of cost price according to the FIFO principle and net realisable value. The cost price of raw materials, consumables and purchased goods comprises the acquisition price including delivery costs. The cost price of finished goods and work in progress comprises costs of materials and direct labour plus indirect production costs.

Indirect production costs include indirect materials and wages, maintenance and depreciation on plant and machinery, factory buildings and other equipment used in the production process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the expected selling price less costs of completion and costs necessary to make the sale.

Receivables

Receivables comprise trade receivables, other financial receivables primarily loans to external parties and other receivables. The receivables are categorised as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

On initial recognition, the receivables are measured at fair value and subsequently at amortised cost price, which normally correspond to face value less provisions for expected losses. Provisions for losses are based on an individual assessment of each outstanding account.

Prepayments

Prepayments comprise incurred costs related to the following financial years. The prepayments are measured at cost price.

Other financial liabilities

Other financial liabilities comprise trade payables and other payables to public authorities etc. and are measured at amortised cost price, which is practically the same as the nominal value.

Deferred income

Deferred income comprises received payments related to income in the following financial years. Deferred income is measured at cost price.

Critical accounting estimates and judgements

Trade receivables

Specific estimates of trade receivables are made on an assessment of the dealer's historical ability to pay and the current situation. The applied principles are unchanged from the 2012/13 financial year. The trade receivables amount to DKK 537.4 million as at 31 May 2014 (2012/13; DKK 443.9 million).

Inventories

A specific assessment of the need for write-downs for obsolescence of inventories is made based on an assessment of the future sales potential. During the assessment the expected technological developments and the expected service periods are taken into account. The applied principles are unchanged from the 2012/13 financial year. Inventories amount to DKK 666.2 million as at 31 May 2014 (2012/13; DKK 572.1 million).

3.5.1 Inventories

(DKK million)	**2013/14**	**2012/13**
Raw materials	140.0	166.5
Work in progress	37.1	22.5
Spare parts	113.6	100.3
Finished goods	375.4	282.8
Total 31 May	**666.2**	**572.1**

It is Group policy that spare parts should be available for a number of years after sale of the product. Subsequently DKK 57.8 million (2012/13; DKK 50.1 million) is expected to be realised after more than 12 months.

Other disclosures:

(DKK million)	**2013/14**	**2012/13**
Inventory movement recognised in production costs	1,303.5	1,391.7
Impairment of inventories recognised in production costs	12.9	29.8
Reversal of impairment of inventories recognised in production costs	2.8	1.2

Reversal of impairment of inventories is, as in the previous year, a result of better than expected sales of impaired inventories.

3.5.2 Trade receivables

(DKK million)	**2013/14**	**2012/13**
Trade receivables at 31 May (gross)	634.6	535.8
Impairment 1 June	(91.9)	(110.9)
Exchange rate adjustment to year-end rate	(0.2)	0.8
Change in impairment during the year	(7.3)	3.5
Actual losses during the year	2.2	14.7
Impairment 31 May	(97.2)	(91.9)
Trade receivables at 31 May (net)	**537.4**	**443.9**

All trade receivables fall due within one year.

Financial income of DKK 4.2 million (2012/13; DKK 6.8 million) has been recognised in the Group relating to impaired trade receivables.

Impairment of trade receivables is recognised in distribution and marketing costs in the income statement. The impairment charge is based on an individual assessment of each individual debtor's ability to pay. All overdue trade receivables are provided for, except for those where sufficient collateral has been obtained.

The carrying amount of receivables which fall due within 1 year after the end of the financial year, is expected to be a reasonable approximation of the fair value.

(DKK million)	**2013/14**	**2012/13**
Maturity analysis:		
Amounts not due	461.1	364.7
Overdue up to 30 days	5.9	6.1
Overdue between 30 and 60 days	12.9	9.4
Overdue between 60 and 90 days	5.2	6.4
Overdue between 90 and 120 days	6.4	7.4
Overdue more than 120 days	45.9	49.8
Trade receivables at 31 May (net)	**537.4**	**443.9**

For further details about the credit risk associated with the trade receivables, refer to Note 4.3 Financial Instruments.

3.6 Pensions

Accounting policies

As employer, the Bang & Olufsen Group participates in pension plans according to normal practice in the countries in which the Group operates. There are two types of plans; defined contribution plans and defined benefit plans.

Under **defined contribution plans** the Group recognises the pension contributions, which can either be a fixed amount of a fixed percentage of the monthly salary, in the income statement as they are paid to independent pension insurance companies. Any unpaid contributions are recognised in the balance sheet as a liability in other liabilities. Once the contributions have been paid the Group has no further obligations and the individual employee carries the risk for the value of the pension insurance at retirement. All pension plans in Denmark and most pension plans in the foreign subsidiaries are defined contribution plans.

Under **defined benefit plans** the Group has an obligation to pay a fixed amount or a fixed percentage of the salary at retirement. This means that the Bang & Olufsen carries the risk of any changes in the actuarially calculated capital value of the pension plans. Bang & Olufsen currently operates with defined benefit plans in Germany and in Norway.

Annual actuarial calculations are made of the present value of the future benefits that the employees are entitled to. The present value is calculated based on a number of assumptions relating to the future development in salary levels and interest-, inflation-, and mortality rates. The present value of the defined benefit obligation net of the fair value of the plan assets is recognised in the balance sheet as a pension asset or a pension liability.

Changes in the assumptions mentioned above as well as differences between the expected and the realised return on plan assets cause actuarial gains and losses. Following the changes to IAS 19 'Employee benefits' whereby the corridor method can no longer be used, all actuarial gains and losses are recognised immediately in other comprehensive income in the period in which they arise. Previously, under the corridor method, actuarial gains and losses were recognised in the income statement only if the accumulated gains or losses exceeded the highest numerical value of 10 % of the defined benefit obligation or 10 % of the fair value of the plan assets as at the beginning of the financial year. The comparatives have been restated.

If the defined benefit plan is a net asset, the asset is recognised only if it corresponds to, or is lower than, the sum of unrecognised actuarial losses, unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Changes to the benefits, which relate to the employees' previous employment in the Group, cause a change in the actuarially calculated present value, which is regarded as past service costs. If the covered employees are immediately entitled to the changed benefit the change is recognised in the income statement at once. Otherwise the change is recognised in the income statement during the period, where the employees become entitled to the changed benefit.

(DKK million)	**2013/14**	**2012/13**	**2012/13** restated *)
Amounts recognised in the income statement:			
Defined contribution plans	45.6	53.1	53.1
Defined benefit plans	1.9	2.6	2.2
Total pension amount charged to the income statement	47.5	55.7	55.3
Amounts recognised in the balance sheet:			
Wholly unfunded defined benefit plans	3.6	3.3	3.3
Wholly or partly funded defined benefit plans	24.6	23.9	23.9
Present value of defined benefit obligation 31 May	28.2	27.2	27.2
Fair value of plan assets	(14.8)	(14.6)	(14.6)
Unrecognised actuarial (gains) and losses	–	(0.8)	–
Defined benefit plans obligation 31 May	13.4	11.8	12.6
Actual return on plan assets	0.2	0.5	0.5

*) *restated following implementation of IAS 19 'Employee benefits (amended 2011)'*

The Group's defined benefit plans are administered by independent pension funds. None of the plan assets are connected to any of the Group companies.

The defined benefit plans in Germany and Norway are partly funded by means of an independent pension fund.

	Germany		Norway	
(DKK million)	**2013/14**	**2012/13**	**2013/14**	**2012/13**
Actuarial assumptions:				
Calculation rate p.a.	3.0%	3.5%	4.0%	2.6%
Expected salary increase p.a.	1.5%	1.5%	3.75%	3.5%
Expected rate of return p.a.	3.0%	3.5%	4.0%	4.1%

(DKK million)	**2013/14**	**2012/13**
Germany:		
Present value of future payments	18.1	17.5
Fair value of plan assets	(8.4)	(8.4)
Actuarially calculated net obligation	9.7	9.1
Norway:		
Present value of future payments	6.5	6.4
Fair value of plan assets	(6.4)	(6.2)
Actuarially calculated net receivable	0.1	0.2
Net obligation	9.8	9.3
Wholly unfunded defined benefit plans	3.6	3.3
Defined benefit plans 31 May, net	**13.4**	**12.6**

(DKK million) **5 year overview:**	**2013/14**	**2012/13**	**2011/12**	**2010/11**	**2009/10**
Present value of defined benefit obligation	28.2	27.2	26.2	23.8	22.3
Fair value of plan assets	(14.8)	(14.6)	(14.9)	(14.6)	(14.7)
Deficit, defined benefit plans	13.4	12.6	11.3	9.2	7.6
Experience-based adjustments of defined benefit obligation	1.2	1.4	1.7	0.6	1.0
Experience-based adjustments of plan assets for defined benefit plans	0.6	(0.0)	(0.1)	(0.4)	(0.6)

3.7 Provisions

Accounting policies

Provisions comprise provisions for warranty, provisions for fairness and other provisions. Provisions for warranty are made to honor obligations to repair products within the warranty period, whereas provisions for fairness are made to enable discretionary goodwill repairs of products after the end of the warranty period.

Provisions are recognised when the Group has a legal or constructive obligation as a result of events in the financial year or previous years, and it is probable that an outflow of financial resources will be required to settle the obligation.

Provisions are measured on basis of past experience with warranty repairs and other obligations. Provisions that are expected to fall due more than one year after the balance sheet date are measured at present value.

Critical accounting estimates and judgements

The Bang & Olufsen Group repairs or replaces products that do not function satisfactorily both within the warranty period and in certain situations after the warranty period. Consequently provisions are made for future repairs and returns. The provisions are made based on historical statistics of repairs and returns and based on management's judgements.

The future repairs and returns can differ from the historical pattern, but management assesses that the estimate of the provisions is reasonable and appropriate.

The Group provides 2-5 years of warranty on certain products and is therefore committed to repairing or replacing products which do not function satisfactorily. Some products are repaired after the end of the warranty period, and a provision is made regarding this potential fairness claim.

Provisions for warranty and fairness of DKK 51.7 million have been recognised as at 31 May 2014 (2012/13; DKK 70.9 million) to cover expected warranty and fairness claims. The size and timing of the provisions are based on previous experience of the level and timing of repairs and returns. The principles are unchanged from the 2012/13 financial year. The decrease in the provision is due to a reduction in repair costs and a changed product mix within the warranty period. No reimbursements will be received from third parties to cover the provisions.

(DKK million)	**Warranty and fairness**	**Employee anniversary benefits**	**Other obligations**	**Total**
At 1 June 2012	115.6	8.1	17.3	141.0
Exchange rate adjustment to year-end rate	(1.3)	(0.0)	(0.6)	(1.9)
Provisions in the year	26.4	1.0	5.7	33.0
Provisions used in the year	(32.2)	(1.1)	(3.8)	(37.1)
Provisions reversed in the year	(37.6)	(0.0)	(0.2)	(37.8)
At 31 May 2013	70.9	8.0	18.4	97.3
Exchange rate adjustment to year-end rate	(0.4)	0.1	(0.4)	(0.7)
Provisions in the year	26.6	0.3	2.1	28.9
Provisions used in the year	(31.2)	(0.9)	(5.7)	(37.8)
Provisions reversed in the year	(14.2)	(4.5)	(0.4)	(19.2)
At 31 May 2014	**51.7**	**2.9**	**14.0**	**68.5**
Falls due 1-5 year	25.6	2.1	11.3	39.1
Falls due after 5 years	–	–	0.7	0.7
Non-current provisions	25.6	2.1	12.0	39.8
Falls due within one year	26.0	0.8	1.9	28.8
At 31 May 2014	**51.7**	**2.9**	**14.0**	**68.5**

SECTION 4

Capital structure and financing Costs

This section contains notes relating to the capital structure and financial items of the Bang & Olufsen Group.

4.1 Mortgage loans and loans from banks

Accounting policies

Fixed interest loans, such as mortgage loans or bank loans, are recognised at the date of the loan at the received proceeds less transaction costs. In subsequent periods, the loans are measured at amortised cost price. This means, that the difference between the proceeds from the raising of the loan and the amount, that must be repaid, is recognised in the income statement during the term of the loan as a financial cost using the effective interest method.

The fair value is calculated as the present value of the expected future instalments and interest payments.

Other financial liabilities comprise overdraft facilities etc. and are measured at amortised cost price, which is practically the same as the nominal value.

4.1.1 Mortgage loans

	Falls due within 1 year	Falls due 1-5 years	Falls due after 5 years	Falls due after 1 year, total
Fixed rate loans, interest rate 4.1%	2.0	9.1	18.3	27.3
Floating rate loans, interest rate level 0.5-1.0%	6.2	25.2	145.3	170.5
Book value 31 May 2014	**8.2**	**34.3**	**163.5**	**197.8**
Fixed rate loans, interest rate 4.1%	2.0	8.7	20.7	29.4
Floating rate loans, interest rate level 2.0-3.0 %	4.9	20.6	156.1	176.7
Book value 31 May 2013	6.8	29.3	176.8	206.1

The fair value of the Group's mortgage loans amounts to DKK 207.4 million (2012/13; DKK 216.4 million). All loans are in DKK.

4.1.2 Loans from banks

The Group has a current draw of DKK 220.0 million (2012/13; DKK 150.0 million) on a committed facility with Nordea. This is also the fair value. This is an ongoing line of credit.

4.2 Financial items

Accounting policies

Financial items include interest income and cost, realised and unrealised capital gains and losses on securities, liabilities, and transactions in foreign currency as well as charges and refunds under the instalment payment tax scheme.

(DKK million)	**2013/14**	**2012/13**
Interest income from banks	0.2	0.5
Other financial income	5.4	8.1
Financial income	5.6	8.6
Interest costs on bank loans etc	(8.4)	(8.6)
Interest costs on mortgage loans	(10.0)	(10.8)
Exchange rate losses, net	(4.6)	(5.9)
Other financial costs	(11.5)	(7.9)
Financial costs	(34.5)	(33.2)

All financial income and costs are related to financial assets and liabilities, which are not measured at fair value in the income statement.

4.3 Financial instruments

Accounting policies

Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; or
- derivative instruments designated as hedges.

The classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition.

Financial assets are recognised when the company becomes a party to the contractual provisions of the instrument or secures other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset.

Financial assets, or a portion of a financial asset, are derecognised when, and only when, the entity loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). Such control is lost if the entity realises the right to benefits specified in the contract, the rights expire, or the entity surrenders those rights.

Financial assets at fair value through profit or loss

Financial instruments are classified under this category if held for trading, or if designated at fair value through profit or loss at inception. A financial instrument is classified as held-for-trading if acquired or incurred principally for the purpose of selling it in the short term. Derivatives are also classified as held-for-trading unless they are designated as hedges. Financial instruments in this category are classified as current assets and liabilities. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Realised and unrealised gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the statement of comprehensive income during the period in which they arise. Financial derivative instruments in the balance sheet are classified in this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months from year-end, which are classified as non-current assets. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost, less impairments, using the effective interest rate method. Loans and receivables comprise the other non-current financial assets, trade and other financial receivables, amounts due by Group companies, cash restricted for use and cash and cash equivalents.

Financial liabilities

Financial liabilities are classified into the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification is dependent on the purpose for which the financial liabilities were acquired or incurred. Management determines the classification of its financial liabilities at the time of initial recognition.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities at amortised cost

This category of financial liabilities comprises preference shares (liability component), borrowings, trade and other financial payables and amounts due to Group companies. These financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Accounting for derivative financial instruments and hedging activities

The Group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast that is the subject of the hedge must be highly probable.

The Group designates certain derivatives as one of the following on the date the derivative contract is entered into:

- a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment (fair value hedge); or

- a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income as financing costs/income, along with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest rate method is used, is amortised in the statement of comprehensive income over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The ineffective portion is recognised immediately in the statement of comprehensive income within financing costs. Where the forecast transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial cost or other carrying amount of the asset or liability. Otherwise, amounts deferred in equity are transferred to the statement of comprehensive income and classified as gains or losses in the same financial years during which the hedged firm commitment or forecast transaction affects the statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the statement of comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserves in shareholders' equity are shown under non-distributable reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within financing costs.

Fair value estimation

The fair value of publicly traded derivatives is based on quoted market prices at year-end. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at year-end.

Financial instruments that are measured at fair value in the balance sheet are classified into the following levels of the fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly, as prices, or indirectly, derived from prices (level 2); and
- inputs for the assets or liabilities that are not based on observable market data, unobservable inputs (level 3).

Quoted market prices or dealer quotes for the specific or similar instruments are used for non-current debt. The fair values of non-current financial assets and deferred payables for disclosure purposes are estimated by discounting the future contractual cash flows at the interest rates available to the Group at year-end. Other techniques, such as options pricing models and estimated discounted value of future cash flows, are used to determine fair value of the remaining financial instruments.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group makes assumptions that are based on market conditions existing at each year-end.

The carrying values of the following financial assets and financial liabilities approximate their fair values:

- trade and other financial receivables;
- cash and cash equivalents;
- other non-current financial receivables;
- amounts due to Group companies;
- amounts due by Group companies;
- trade and other financial payables;
- current borrowings; and
- non-current borrowings.

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)

Categories of financial assets and liabilities

Carrying amount of financial instruments by measurement category under IAS 39

	2013/14		2012/13	
(DKK million)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Derivative financial instruments relating to hedging of forecasted future transactions included in other receivables	0.0	0.0	4.0	4.0
Financial assets held for trading	**0.0**	**0.0**	**4.0**	**4.0**
Other financial receivables	44.2	44.2	42.7	42.7
Trade receivables	537.4	537.4	443.9	443.9
Receivables from associates	1.9	1.9	1.8	1.8
Other receivables	65.8	65.8	41.7	41.7
Loans receivable and other receivables	**649.3**	**649.3**	**530.1**	**530.1**
Mortgage loans	206.0	207.4	212.9	216.4
Loans from banks	220.0	220.0	150.0	150.0
Overdraft facilities	68.5	68.5	56.2	56.2
Trade payables	434.0	434.0	295.3	295.3
Other liabilities	215.8	215.8	226.9	226.9
Financial liabilities valued at amortised cost	**1,144.3**	**1,145.7**	**941.3**	**944.8**

For financial assets and liabilities, the fair value is approximately equal to the carrying amount.

Foreign exchange contracts are measured at fair value in the balance sheet. The fair value is based on observable market data and is part of level 2 in the fair value hierarchy and in the category financial assets and liabilities used as hedging instruments. The fair value is DKK 0.0 million (2012/13; DKK 4.0 million).

Foreign exchange rate risk

In 2013/14 91 per cent of the Group's turnover was in foreign currency (2012/13; 91 per cent). Since part of the Group's purchasing policy is to match purchasing and sales currencies to the greatest possible extent, the figure does not express the Group's foreign exchange rate risk.

The Group has significant net in-flows in EUR, GBP and CHF, and the most significant exposure is presently related to these. The most significant exposure on the outflow is USD. The company thus only has a limited natural hedging of the currency risk.

The Group's foreign exchange rate risks are managed centrally by the parent company's finance department based on a foreign exchange rate policy approved by the Board of Directors, under which up to 75 per cent of the expected net cash flows in selected currencies are covered. Forward contracts are continually used for this hedging. The forward contracts are classified as hedging and fulfil the accounting requirements for hedging of future cash flow. Forward contracts are used for commercial transactions only, and hedging is made for a horizon of up to 18 months.

Besides the foreign exchange rate risk relating to current transactions, the Group's equity is affected by foreign exchange rate risks relating to the translation of the Group's foreign subsidiaries from local currencies to DKK.

Foreign exchange contracts

As at 31 May 2014 the Group has entered into foreign exchange forward contracts at a repurchase value of DKK 9.6 million (DKK 42.0 million as at 31 May 2013), with a fair value of DKK 0.0 million (DKK 4.0 million as at 31 May 2013).

Foreign exchange contracts, net sale (purchase)

	31 May 2014		31 May 2013	
(DKK million)	Contractual value	Fair value	Contractual value	Fair value
USD	(109.1)	–	(177.7)	2.5
GBP	–	–	42.2	0.3
CHF	108.0	–	136.5	1.7
Other	10.7	–	41.0	(0.5)
Total	**9.6**	**–**	**42.0**	**4.0**

Sensitivity analysis

Effect on Group EBIT and equity based on 5% change in selected currencies compared to average annual rates estimated on unhedged basis.

	EBIT		Equity	
(DKK million)	**2013/14**	**2012/13**	**2013/14**	**2012/13**
USD	(12.7)	(13.1)	(9.5)	(9.9)
GBP	7.6	7.0	5.7	5.2
CHF	8.8	8.7	6.6	6.5
Other	(0.9)	5.3	0.1	4.1
Total	**2.8**	**7.9**	**2.9**	**5.9**

Interest rate risk

The Group interest rate risk relates to interest-bearing assets and debt.

The Group interest-bearing assets mainly consist of liquid funds, which at the end of the financial year totalled DKK 120.4 million (2012/13; DKK 145.9 million). Liquid funds yield interest in the short-term money market. The interest rate risk is deemed to be insignificant in that a change in the interest rate level of 0.5 percentage points would have impacted the Group's earnings before tax by approx. DKK 0.8 million in 2013/14 (2012/13; DKK 1.7 million).

At the end of the financial year, the Group's interest-bearing debt totalled DKK 494.6 million (2012/13; DKK 419.1 million) corresponding to 17.1 per cent of the balance sheet total (2012/13; 15.2 per cent).

Of the interest-bearing debt DKK 163.5 million falls due after five years (2012/13; DKK 176.8 million). Further information is provided in note 4.1.

Due to the low debt level and the fact that the borrowings are in fixed rate loans or loans with a fixed rate of minimum three years, the Group's interest rate risks are insignificant and are not expected to significantly impact the Group's earnings.

Credit risk

The Group's balance sheet items that are subject to credit risk are primarily trade receivables and bank deposits. The amounts at which these balance sheet items are recognized correspond to the maximum credit risk.

At the end of the financial year, the Group sells its products through 724 dealers worldwide. The Group is, therefore, exposed to a risk of losses on trade receivables.

The individual dealers, including their geographical location, are subject to ongoing evaluation. When deemed necessary, the Group employs bank guarantees or debtor insurance against outstanding debts, and in some situations other forms of securities are attained, e.g. in the form of security in inventories or other assets.

In the 2013/14 financial year, DKK 2.2 million was expensed as losses on trade receivables (2012/13; DKK 14.7 million).

Liquid funds are placed with financial institutions with high credit ratings. Derivatives, including foreign exchange forward contracts, are entered into with such institutions only. Therefore, it is deemed that the credit risk relating to liquid funds is of no significance to Bang & Olufsen's annual report.

Liquidity risk

The financial reserve is continually assessed and managed by the parent company's finance department. It is ensured that there at any given time, is sufficient, flexible and unused credit available provided by major, reputable financial institutions. On the basis of the Group's financial reserve arrangements, and the expectations to the Groups future cash flows, management believes that there are sufficient capital resources.

Contractual maturity analysis for financial liabilities

(DKK million)	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
2013/14				
Mortgage loans	–	59.9	218.3	278.2
Short-term bank loans	297.0	–	–	297.0
Trade payables	434.0	–	–	434.0
Total non-derivative financial liabilities	731.0	59.9	218.3	1,009.2
Total financial liabilities	**731.0**	**59.9**	**218.3**	**1,009.2**

(DKK million)	Less than one year	Between one and five years	More than five years	Total
2012/13				
Long-term bank loans	–	63.9	256.5	320.3
Short-term bank loans	224.1	–	–	224.1
Trade payables	295.3	–	–	295.3
Total non-derivative financial liabilities	519.4	63.9	256.5	839.8
Total financial liabilities	**519.4**	**63.9**	**256.5**	**839.8**

Specification of net interest-bearing debt

(DKK million)	2013/14	2012/13
Cash and cash equivalents	120.4	145.9
Bank loans, non-current liabilities	(197.8)	(206.1)
Bank loans, current liabilities	(296.7)	(213.0)
Total	**(374.1)**	**(273.2)**

Defaults or breaches on loans

No loan agreements have been defaulted or breached in 2013/14 or 2012/13.

4.4 Capital structure

Based on the company's result and to have sufficient funds to support the strategic initiatives, the Board of Directors proposes to the General Meeting that no dividend be paid out for the 2013/14 financial year. It is the intention of the Board of Directors to resume dividend payments as soon as the financial results justify it.

Bang & Olufsen operates in an industry with very frequent and significant changes in technology, and therefore, the Group will from time to time be faced with small or medium-sized investment opportunities within new business areas and new fields of technology. The product distribution largely takes place through partner-owned retail shops. But in certain markets it might from time to time be necessary for the Group to acquire established retail networks or open new stores. For these reasons and to ensure adequate reserves to implement the "Leaner, Faster, Stronger" strategy and manage the considerable seasonal variations in the company's income, Bang & Olufsen must maintain an adequate capital reserve.

4.5 Share capital

Accounting policies

Dividend

Dividend is recognised as a liability at the time of approval by the Annual General Meeting.

Own shares

Acquisition and sales prices for own shares and dividend received on these shares are recognised directly in equity under retained earnings.

Translation reserve

The translation reserve for exchange rate differences in the consolidated financial statements comprises exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into Bang & Olufsen a/s' presentation currency.

On disposal of net investments the exchange rate differences on the individual investment are recognised in the profit and loss account. The reserve is a distributable reserve.

The translation reserve has been reset to zero as at 1 June 2004 in accordance with IFRS 1.

Reserve for cash flow hedges

Reserve for cash flow hedges comprises accumulated changes in fair value of derivative financial instruments, which meets the conditions for hedging of future cash flows, where the hedged position has not yet been realised.

The changes in fair value are transferred to the profit and loss account, when the hedged positions are realised.

	Issued shares			
	Number		Nominal value (DKK mio)	
(DKK million)	**2013/14**	**2012/13**	**2013/14**	**2012/13**
1 June	39,270,435	36,244,014	392.7	362.4
Capital increase	–	3,026,421	–	30.3
31 May	**39,270,435**	**39,270,435**	**392.7**	**392.7**

The share capital consists of 39,270,435 shares with a nominal value of 10 DKK. Each share gives one vote. No shares have special rights. There are no limitations to transferability and no voting restrictions. All new shares issued as part of the capital increase in 2012/13 were subscribed for by Sparkle Roll Holdings Limited and A Capital Bravo Holding S.à.r.I at a market price of DKK 60.22 per share of DKK 10. The 3,026,421 new shares were issued without pre-emption rights for the company's existing shareholders.

(DKK million)	**2013/14**	**2012/13**	**2011/12**	**2010/11**	**2009/10**
Specification of movements in the share capital:					
Share capital	392.7	362.4	362.4	362.4	120.8
Capital increase	–	30.3	–	–	241.6
Share capital	392.7	392.7	362.4	362.4	362.4

Own shares

	Number		Nominal value (DKK mio)		% of share capital	
(DKK million)	**2013/14**	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13**
1 June	102,021	95,207	1.0	1.0	0.3	0.3
Used in connection with allocation of employee shares	(24,652)	(8,727)	(0.3)	(0.1)	(0.1)	(0.0)
Acquired to cover employee share option programmes	–	15,541	–	0.2	0	0.0
31 May	**77,369**	**102,021**	**0.8**	**0.9**	**0.2**	**0.3**

All own shares are owned by Bang & Olufsen a/s.

4.6 Costs relating to capital increase

There has been no capital increase in the financial year 2013/14.

On 19 July 2012 (company announcement no. 12.06) it was announced that Bang & Olufsen had entered into a strategic partnership with Sparkle Roll Holdings Limited and A Capital China Outbound Fund, FCP-SIF and A Capital Bravo Holding S.à.r.I. in order to further accelerate the growth of the Bang & Olufsen brand in China. As part of the strategic partnership Sparkle Roll and A Capital would subscribe for 6.63% and 1.72% of the existing share capital respectively at market price through a directed share issue.

The following costs were recognised directly in equity in relation to the capital increase in the financial year 2012/13:

(DKK million)	**2013/14**	**2012/13**
Legal fees	–	1.3
Consultancy fees	–	2.0
Issuance fees	–	0.3
Total	**–**	**3.6**

4.7 Share-based payment

Accounting policies

Share-based incentive programmes

Share-based incentive programmes, in which Executive Management and select other key employees are given the right to buy shares in the parent company (equity-settled programmes), are measured at the fair value of the equity instruments at grant date and are recognised in the income statement as part of staff costs during the period where the employees become entitled to buy the shares. The other side of the entry is recognised directly in equity.

The fair value of the equity instruments is calculated on the basis of the Monte Carlo simulation model based on the assumptions listed below.

Share options have been granted on one occasion in the financial year 2013/14.

Share-based payment

The Bang & Olufsen Group's share option programme extends to Executive Management and a number of key employees in the Group. As at 31 May 2014, the total pool of options amounted to 3,037,285 options, which can be exercised in the period 2014-2016. Vesting of the share options is dependent on the recipient of the option being employed during the vesting period.

There are no further vesting conditions for the options.

However, for the 833.334 options granted to the CEO (company announcement no. 10.16 and no. 13.07) there are certain demands regarding development in share price and EBITDA performance. This is also the case for the 535,550, 275,972 and 290,801 options which have been granted to Executive Management and a group of key employees (company announcements no. 11.13, 12.17 and 13.07).

The share options can only be settled with shares. To a limited extent, Bang & Olufsen a/s has purchased own shares to cover the obligation for the outstanding options. The purchase of shares are recognised directly in equity. The holding of own shares totals 77,369 shares as at 31 May 2014 (2012/13; 102,021 shares).

	2013/14		2012/13	
	Number of option	Avg. exercise price per options (DKK)	Number of option	Avg. exercise price per options (DKK)
Outstanding at 1 June	2,882,254	82	2,561,457	83
Granted	1.022.962	81	344,929	81
Exercised	(24,652)	47	(8,727)	58
Expired	(562.490)	121	–	–
Forfeited	280.789	63	(15,405)	72
Outstanding 31 May	**3,037,285**	**77**	**2,882,254**	**82**

Further information about the outstanding stock options:

	2013/14			2012/13		
	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)
Outstanding programme 2007/08	0	–	0	126,443	302	2
Outstanding programme 2008/09	119,010	103	2	123,156	103	14
Outstanding programme 2009/10	72,446	58	14	75,355	58	26
Outstanding programme 2010/11	244,842	47	26	341,972	47	38
Outstanding programme 2010/11	0	–	0	416,666	69	3
Outstanding programme 2010/11	416,667	77	3	416,667	77	15
Outstanding programme 2010/11	416,667	86	15	416,667	86	27
Outstanding programme 2011/12	535,550	67	3	631,695	67	15
Outstanding programme 2012/13	275,972	81	15	333,631	81	27
Outstanding programme 2013/14	665,000	60	27	–	–	–
Outstanding programme 2013/14	290,801	55	27	–	–	–
Outstanding 31 May	**3,037,285**	**69**		**2,882,253**	**82**	

The value of the share-based payment expresses the group income statement effect of allocated share options. 24.652 share options have been exercised in the year with an average exercise price of DKK 47. The remaining options have not been, and may never be, exercised.

Staff costs recognized in the income statement in relation to share-based payments were DKK 4.2 million (2012/13; DKK 2.8 million).

	Options granted in 2013/14	Options granted in 2012/13
Weighted average fair value (DKK per option)	15.27	18
The expense recognition according to the Monte Carlo option pricing formula has been based on the following assumptions:		
Weighted average share price (DKK per option)	55	81
Expected volatility, first grant	40.0%	40.0 %
Risk-free interest rate, first grant	0.41%	0.15 %

In 2013/14 and 2012/13 an average dividend addition for the Bang & Olufsen a/s share of 0.00% has been used in the calculation.

The expected maturity is fixed to be the end of the vesting period.

As in the previous year the volatility is based on historical volatility. The volatility is based on one year's historical data and five years' historical data respectively.

SECTION 5
Other notes

This section contains other statutory notes and notes of secondary importance for understanding the financial performance of the Bang & Olufsen Group.

5.1 Non-cash items

Accounting policies

Cash flow statement

The presentation of the cash flow statement follows the indirect method, based on earnings for the year.

The cash flow statement shows the cash flows for the year, the year's change in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities

Cash flow from operating activities are stated as earnings for the year adjusted for non-cash income statement items and changes to working capital. The working capital is made up of current assets less current liabilities, excluding items, which are recognised as cash and cash equivalents.

Cash flow from investing activities

Cash flow from investing activities comprise the acquisition and sale of intangible, tangible and financial non-current assets and investment property.

Free cash flow

Cash produced from operations less the costs of expanding the asset base.

Cash flow from financing activities

Cash flow from financing activities comprise borrowings and instalments on non-current liabilities, dividends paid and proceeds from increases in the share capital as well as sales and repurchase of own shares.

Cash and cash equivalents

Cash and cash equivalents comprise cash less overdraft facilities, which forms part of the Group's ongoing cash flow management. Cash flows in foreign currency, including cash flows in foreign subsidiaries, are translated at average monthly exchange rates, which do not deviate materially from the exchange rates prevailing on the date of payment.

(DKK million)	**2013/14**	**2012/13**
Change in other liabilities	(29.0)	(39.0)
Financial income	(5.6)	(8.6)
Financial costs	34.5	33.2
Result of investments in associates after tax	(3.2)	(2.6)
Gain/loss on sale of non-current assets	(11.7)	(1.2)
Tax on earnings for the year	5.8	(51.8)
Other adjustments	(4.8)	3.1
Total adjustments	**(13.9)**	**(66.9)**

5.2 Business combinations

Accounting policies

Newly acquired or newly established companies are recognised in the consolidated financial statements as from the date of acquisition or the date of establishment, respectively. The acquisition date is the date, where control of the company is actually obtained. Companies sold or liquidated are included in the profit and loss account until the date of sale or liquidation. The date of sale is the date, where control of the company is actually transferred to a third-party. When acquiring new companies, where the Group obtains a controlling influence in the acquired company, the acquisition method is applied, by which the newly acquired companies' identifiable assets, the liabilities and the contingent liabilities are measured at fair value at the acquisition date.

The consideration paid for a company is the fair value of the consideration paid for the acquired company. Acquisition related costs are recognised in profit or loss in the periods in which the costs are incurred.

Positive differences (goodwill) between, on the one hand, the consideration paid for the acquired company, the value of minority interests in the acquired company and the acquisition-date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities are recognised as an asset under intangible assets, and are tested for impairment at least once a year. If the carrying amount of the asset exceeds the recoverable amount, the carrying amount of the asset is reduced to the lower recoverable amount.

(DKK million)	**2013/14**
The assumed fair value of acquired assets and liabilities is as follows:	
Other equipment	2.4
Leasehold improvements	1.7
Tangible assets in course of construction and prepayments for tangible assets	0.9
Tangible assets	**5.0**
Total non-current assets	**5.0**
Order back-log	10.9
Inventories	20.1
Trade receivables	2.8
Cash at bank and in hand	1.1
Total current assets	**34.9**
Total assets	**39.9**
Provisions	3.3
Total non-current liabilities	**3.3**
Other liabilities	7.6
Total current liabilities	**7.6**
Total liabilities	**11.0**
Acquired net assets	**28.8**
The purchase price is as follows:	
Cash	41.0
Total purchase price	**41.0**
Goodwill	**12.2**

Richcom

On 1 June 2013 Bang & Olufsen took over 20 shops from the previous master dealer Richcom in China (including Beijing and Shanghai). This is expected to lead the way to further expansion and stronger control of the distribution in the Greater China region.

At the time of the acquisition a purchase price has been paid which exceeds the fair value of the acquired identifiable assets. This positive difference (goodwill) can primarily be justified by expected synergy effects between the acquired activities and the Group's existing activities and future growth prospects. These synergies are not recognised separately from goodwill as they are not separately identifiable.

Revenue generated by the acquired shops was approximately DKK 17 million in the 2013/14 financial year but with a zero effect on EBIT. Purchase costs for the transaction amounted to approximately DKK 3.5 million and have been included in distribution- and marketing costs.

5.3 Contingent liabilities and other financial commitments

Accounting policies

A sale and leaseback transaction involves the sale of an asset and leaseback of the same asset. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. When the lease is deemed to be an operating lease and the sale transaction is established at fair value, any gain or loss on the sales transaction is recognized in profit/loss immediately. The leaseback is recognized as other operating leases, cf. accounting policies for operating leases.

Critical accounting estimates and judgements

Sale and leaseback

Bang & Olufsen s.r.o. have entered a sale and leaseback agreement with Bidston Management s.r.o. on 14 February 2014.

The transaction includes all buildings and installations previously owned by Bang & Olufsen s.r.o. The net sales price is DKK 79 million which resulted in a profit on disposal of approximately DKK 11 million (included in administration costs).

The initial lease period is 15 years with annual lease payments of DKK 7.7 million. Bang & Olufsen has the right to extend the lease by five years for three consecutive periods.

Management have assessed the terms and conditions of the sale and leaseback transaction. Based on the contractual terms including the buy-back clause, the length of the lease period and the minimum lease payments compared to the market value, it has been assessed that the lease meets the criteria of an operating lease.

(DKK million)	**2013/14**	**2012/13**
Leasing commitments:		
Plant and machinery etc.	30.2	40.9
Shops	201.3	190.4
Office and factory property	180.0	83.9
Total	**411.5**	**315.2**
Maturity:		
Due within 1 year	111.6	99.2
Due 1 – 5 years	207.2	194.9
Due after 5 years	92.7	21.1
Total	**411.5**	**315.2**
Rental and lease payments, net for the year	126.0	102.4
Minimum rental and lease payments	126.0	102.4

The Group has entered into a number of operating leases and rental agreements regarding plant and machinery, shops and other property. There is a big diversity in the length of the agreements. The longest agreement has a term term of 15 years.

All agreements contain conditions regarding renewal. The Group is entitled to determine, whether or not the agreements are renewed. None of the agreements impose restrictions in the Group's rights of disposal.

No contingent rental or lease payments have been recognised in the income statement in 2013/14 or 2012/13.

In connection with the establishment of shops in previous financial years, the Group has entered into a number of long-term rental agreements. The agreements include conditions concerning the right to sublet.

The Group has not entered into any non-cancellable lease agreements as at the balance sheet date.

(DKK million)	**2013/14**	**2012/13**
Guarantees		
Total guarantees as at 31 May	3.4	15.1

DKK 1.3 million (2012/13; DKK 1.3 million) of the guarantees relate to associated companies.

None of the guarantees are expected to result in any losses.

VAT and other taxes

The Danish companies in the Group are jointly registered and are jointly and severally liable for VAT and other taxes of a total of DKK 17.0 million (2012/13; DKK 10.8 million).

Mortgages and securities

Land and buildings and investment property have been mortgaged in the amount of DKK 265.0 million (2012/13; DKK 378.2 million) as security for DKK 206.1 million of the Group's mortgage and bank debt (2012/13; DKK 212.9).

Other tangible non-current assets relating to the land and buildings and investment property are included in the mortgages. The carrying amount of the Group's mortgaged land and buildings and investment property is DKK 147.3 million (2012/13; DKK 157.9 million). No intangible assets, financial assets or inventories are pledged as security for liabilities.

As security for all receivables and payables with Danske Bank and Nordea a statement had been made to the effect that no shares in the subsidiaries of Bang & Olufsen a/s can be sold or pledged as security without the consent of the banks.

Lawsuits

The companies in the Group are parties to a few pending lawsuits. The management assesses that the outcome of the lawsuits will not materially influence the Group's financial position.

5.4 Related parties

No related parties have a controlling influence in the Bang & Olufsen Group.

The related parties that have significant influence in the Bang & Olufsen Group, are the Board of Directors, Executive Management and other key management employees in other companies in the Group and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

The related parties in Bang & Olufsen a/s and the Bang & Olufsen Group also comprise the associated companies Bang & Olufsen Medicom a/s and John Bjerrum Nielsen A/S, in which Bang & Olufsen a/s has significant influence.

Bang & Olufsen's share in subsidiaries and associated companies is shown in note 5.7.

Board of Directors, Executive Management and other key management employees

Except from what follows from the employment and shareholdings, if any, there have been no transactions with the Board of Directors, Executive Management and other key management employees. Remuneration and share option programmes are shown in notes 2.2 and 4.7.

Executive Management's terms of notice is in accordance with normal market conditions (up to 24 months).

Associated companies

The transactions with the associated companies have included the following:

(DKK million)	**2013/14**	**2012/13**
Purchase of raw materials	(27.7)	(12.5)
Purchase of services	–	(0.6)
Rental income	2.1	1.6
Rendering of services	0.0	1.3

The Group has a net receivable with associated companies of DKK 1,9 million (2012/13; DKK 1.8 million). The outstanding balances carry interest. Terms of payment on outstanding balances for purchase of goods are current month + 30 days. All receivables fall due within 1 year.

The fair value of the receivables are DKK 1.9 million (2012/13; DKK 1.8 million). The book value is expected to be a reasonable approximation of the fair value.

There are no securities regarding the outstanding balances. There has been no need for write-down of outstanding balances, and no actual losses have been incurred in 2013/14 and 2012/13.

Other transactions

No other transactions have taken place with related parties.

5.5 Events after the balance sheet date

Following the end of the reporting period Bang & Olufsen a/s carried out a capital increase through an accelerated bookbuilding process (refer to company announcement 14.02 of 19 June 2014). The capital increase represented 3,927,042 shares of a nominal value of DKK 10 each and was subscribed for at a price per share of DKK 66. Bang & Olufsen received net proceeds of DKK 250 million. Following registration of the capital increase, the share capital of Bang & Olufsen amounts to a nominal value of DKK 431,974,780 divided into 43,197,478 shares of DKK 10 each. Bang & Olufsen will use the net proceeds to accelerate the execution of the Group's growth plan.

On 26 June 2014 Bang & Olufsen announced the appointment of Stefan Persson as COO from 1 October 2014. Executive Management will hereafter consist of CEO Tue Mantoni, CFO Anders Aakær Jensen, who joined Bang & Olufsen on 1 August 2014, and COO Stefan Persson.

5.6 Approval of the Annual Report for publication

At the Board meeting held on 13 August 2014 the Board of Directors have approved the publication of this Annual Report.

The Annual Report will be presented for adoption at the ordinary Annual General Meeting of Bang & Olufsen a/s on 10 September 2014.

5.7 Companies in the Bang & Olufsen Group

Company name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
Bang & Olufsen a/s	Struer, DK	DKK	392,704,350		
Bang & Olufsen Operations a/s	Struer, DK	DKK	156,000,000	100%	
Scandinavia					
Bang & Olufsen Danmark a/s	Struer, DK	DKK	3,000,000	100%	
Bang & Olufsen AS	Oslo, N	NOK	3,000,000	100%	
Bang & Olufsen Svenska AB	Stockholm, S	SEK	4,150,000	100%	
Central Europe					
Bang & Olufsen Deutschland G.m.b.H.	München, D	EUR	1,022,584	100%	
Bang & Olufsen AG	Bassersdorf, CH	CHF	200,000	100%	
Bang & Olufsen Ges. m.b.H	Tulln, A	EUR	1,744,148	100%	
United Kingdom/Benelux					
Bang & Olufsen United Kingdom Ltd.	Berkshire, GB	GBP	2,600,000	100%	2
S.A. Bang & Olufsen Belgium N.V.	Dilbeek, B	EUR	942,000	100%	
Bang & Olufsen b.v.	Naarden, NL	EUR	18,000	100%	
Rest of Europe					
Bang & Olufsen France S.A.	Levallois-Perret, F	EUR	3,585,000	100%	1
Bang & Olufsen España S.A.	Madrid, E	EUR	1,803,036	100%	2
Bang & Olufsen Italia S.p.A.	Milano, I	EUR	774,000	100%	
North America					
Bang & Olufsen America Inc.	Deerfield, IL, USA	USD	34,000,000	100%	3
Asia					
Bang & Olufsen Asia Pte Ltd.	Singapore, SG	SGD	2	100%	
Bang & Olufsen Wholesale Pty Ltd	Armadale, AUS	AUD	6,000,001	100%	3
Bang & Olufsen Hong-Kong Pty Ltd	Hong Kong, HK	HKD	1,000,000	100%	1
Bang & Olufsen Trading (Shanghai) Ltd	Shanghai, CN	RMB	67,000,000	100%	
Middle East					
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100%	
Other					
Bang & Olufsen Expansion a/s	Struer, DK	DKK	7,000,000	100%	
Bang & Olufsen s.r.o	Koprivnice, CZ	CZK	187,800,000	100%	
B&O PLAY a/s	Struer, DK	DKK	7,500,000	100%	
Bang & Olufsen ICEpower a/s	Lyngby Taarbæk, DK	DKK	1,939,750	100%	
Bang & Olufsen OÜ	Tallin, EE	EEK	40,000	100%	
Associated companies					
John Bjerrum Nielsen A/S	Bramming, DK	DKK	10,000,000	33%	
Bang & Olufsen Medicom a/s	Struer, DK	DKK	11,920,918	33%	

Dormant companies have not been included

5.8 Key figure definitions

Gross margin, %

Gross profit/(loss) x 100/Revenue

EBITDAC

Earnings before interest, tax, depreciation, amortisation, impairment losses, capitalisation of development projects and result of investments in associates after tax. Additions relating to key components and technologies acquired from 3rd parties are not included.

EBITDA

Earnings before interest, tax, depreciation, amortisation, impairment losses and result of investments in associates after tax

Free cash flow

Sum of cash flow from operating and investing activities

EBITDA-margin, %

EBITDA x 100/Revenue

EBIT-margin, %

Operating profit/(loss) x 100/Revenue

NIBD/EBITDA, %

Sum of mortgage loans, loans from banks, credit facilities and cash x 100/ EBITDA

Return on assets, %

Operating profit/(loss) x 100/Average operational assets

Return on invested capital excl. goodwill, %

EBITA x 100/Average invested capital, excl. goodwill

Return on equity, %

Earnings for the year excl. minority interests x 100/Average equity excl. minority interest

Earnings per share (EPS), DKK

Earnings for the year, excl. minority interests/Average number of shares in circulation

Earnings per share, diluted (EPS-D), DKK

Profit/(loss) for the year, excl. minority interests/Average number of shares in circulation (diluted)

Price/earnings

Quotation/Earnings per share (nom. DKK 10)

(b) Published audited financial statements for the year ended 31 May 2015

The following is the extracted audited consolidated financial statements of B&O for the year ended 31 May 2015, which were prepared in accordance with IFRS as adopted by the European Union. These financial statements were presented in millions of Danish Kroner, being the local currency in Denmark except where otherwise stated. B&O's 2015 financial statements for the year ended 31 May 2015 are available free of charge, in printable format on B&O's website (http://www.bang-olufsen.com/en/investors/company-announcements/annual-reports).

Management's Statement

The Board of Directors and Executive Management have today considered and approved the annual report of Bang & Olufsen A/S for the financial year 1 June 2014 – 31 May 2015.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 May 2015 as well as of their financial performance and their cash flow for the financial year 1 June 2014 – 31 May 2015.

We believe that the management commentary contains a true and fair review of the development and performance of the Group's and the parent company's business activities and financial situation, the earnings for the year and the financial position of the parent company and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the parent company face.

We recommend the annual report for adoption at the Annual General Meeting.

Struer, 13 August 2015

Executive Management:

Tue Mantoni	Anders Aakær Jensen	Stefan Persson
President & CEO	*Executive Vice President & CFO*	*Executive Vice President & COO*

Board of Directors:

Ole Andersen *Chairman*	Jim Hagemann Snabe *Deputy Chairman*
Jesper Jarlbæk	Majken Schultz
Albert Bensoussan	Mads Nipper
Knud Olesen	Jesper Olesen
Per Østergaard Frederiksen	

To the shareholders of Bang & Olufsen a/s

Independent auditors' report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Bang & Olufsen a/s for the financial year 1 June 2014 – 31 May 2015, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as for the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 May 2015 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 June 2014 – 31 May 2015 in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Copenhagen, 13 August 2015

ERNST & YOUNG
Godkendt Revisionspartnerselskab

Steen Skorstengaard
State Authorised
Public Accountant

Niels-Jørgen Andersen
State Authorised
Public Accountant

CONSOLIDATED INCOME STATEMENT

1 June – 31 May

(DKK million)	*Notes*	**2014/15**	**2013/14**
Revenue	*2.1*	**2,356.5**	**2,161.7**
Production costs	*2.2*	(1,776.2)	(1,332.0)
Gross profit		**580.3**	**829.7**
Development costs	*2.2, 2.3*	(448.5)	(292.8)
Distribution and marketing costs	*2.2*	(861.7)	(731.9)
Administration costs	*2.2, 2.4*	(77.1)	(65.8)
Operating profit (EBIT)		**(807.0)**	**(260.6)**
Share of result after tax in associated companies		10.5	3.2
Financial income	*4.2*	24.8	5.6
Financial expenses	*4.2*	(30.9)	(34.5)
Financial items, net		(6.1)	(28.9)
Earnings before tax (EBT)		**(802.7)**	**(286.4)**
Income tax	*2.5*	195.4	58.7
Earnings for the year – continued operations		(607.3)	(227.6)
Earnings for the year after tax – discontinued operations	*5.2*	664.3	198.6
Earnings for the year		**57.0**	**(29.0)**
Earnings per share			
Earnings per share (EPS) DKK		1.3	(0.7)
Diluted earnings per share (EPS-D) DKK		1.3	(0.7)
Earnings per share from continuing operations, DKK		(14.2)	(5.8)
Diluted earnings per share (EPS-D) from continuing operations, DKK	*2.6*	(14.2)	(5.8)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 June – 31 May

(DKK million)	*Notes*	**2014/15**	**2013/14**
Earnings for the year		**57.0**	**(29.0)**
Items that will be reclassified subsequently to the income statement:			
Exchange rate adjustment of investment in foreign subsidiaries		12.1	(9.6)
Change in fair value of derivative financial instruments used as cash flow hedges		(8.8)	(2.7)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue		(8.2)	1.7
Transfer to production costs		12.4	(2.9)
Income tax on items that will be reclassified to the income statement:	*2.5*	1.1	1.0
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit plans		(4.2)	(0.1)
Income tax on items that will not be reclassified to the income statement	*2.5*	0.9	0.0
Other comprehensive income for the year, net of tax		**5.3**	**(12.7)**
Total comprehensive income for the year		**62.3**	**(41.7)**

CONSOLIDATED BALANCE SHEET
At 31 May

(DKK million)	*Notes*	**31/5/15**	**31/5/14**
Goodwill		70.2	63.5
Acquired rights		8.0	14.5
Completed development projects		312.1	406.2
Development projects in progress		80.3	317.6
Intangible assets	*3.1*	**470.6**	**801.7**
Land and buildings		104.6	114.7
Plant and machinery		68.9	123.5
Other equipment		26.8	26.8
Leasehold improvements		44.9	39.5
Tangible assets in course of construction and prepayments for tangible assets		9.1	29.8
Tangible assets	*3.2*	**254.3**	**334.3**
Investment property	*3.3*	**17.2**	**38.6**
Investments in associates		5.9	10.2
Other financial receivables	*3.4*	123.3	44.2
Financial assets		**129.2**	**54.4**
Deferred tax assets	*2.5*	**187.5**	**180.4**
Total non-current assets		**1,058.8**	**1,409.5**
Inventories	*3.5*	**533.1**	**666.2**
Trade receivables	*3.5*	456.6	537.4
Receivables from associates	*5.4*	–	1.9
Corporation tax receivable		33.5	21.3
Other receivables		71.5	65.8
Prepayments		19.9	69.5
Total receivables		**581.5**	**696.0**
Cash		**1,198.0**	**120.4**
Assets held for sale		**77.6**	**–**
Total current assets		**2,390.2**	**1,482.6**
Total assets		**3,449.0**	**2,892.1**

(DKK million)	*Notes*	**31/5/15**	**31/5/14**
Share capital	*4.5*	432.0	392.7
Translation reserve		24.6	12.4
Reserve for cash flow hedges		(3.5)	0.0
Retained earnings	*4.6*	1,468.3	1,199.2
Total equity		**1,921.4**	**1,604.4**
Pensions	*3.6*	17.1	13.3
Deferred tax	*2.5*	10.6	7.7
Provisions	*3.7*	44.8	39.8
Mortgage loans	*4.1*	191.1	197.8
Other non-current liabilities		1.6	1.9
Deferred income	*3.8*	148.7	–
Total non-current liabilities		**414.0**	**260.5**
Mortgage loans	*4.1*	8.4	8.2
Loans from banks	*4.1*	210.0	220.0
Overdraft facilities		–	68.5
Provisions	*3.7*	25.4	28.8
Trade payables	*3.5*	443.1	434.0
Corporation tax payable		33.7	18.1
Other liabilities		309.1	215.8
Deferred income		67.7	33.9
Other current liabilities		**1,097.4**	**1,027.2**
Liabilities associated with assets held for sale		**16.3**	**–**
Total liabilities		**1,527.6**	**1,287.8**
Total equity and liabilities		**3,449.0**	**2,892.1**

CONSOLIDATED CASH FLOW STATEMENT
1 June – 31 May

(DKK million)	*Notes*	**2014/15**	**2013/14**
Earnings for the year – continuing operations		(607.3)	(227.6)
Earnings for the year – discontinued operations		664.3	198.6
Amortisation, depreciation and impairment losses		430.8	342.1
Adjustments for non-cash items	*5.1*	(662.3)	(13.9)
Change in receivables		10.6	(141.2)
Change in inventories		78.5	(63.2)
Change in trade payables etc		155.8	127.1
Cash flow from operations		70.3	221.9
Interest received		24.8	5.6
Interest paid		(30.9)	(34.5)
Income tax paid		(9.2)	(9.5)
Cash flow from operating activities		**55.0**	**183.5**
Purchase of intangible non-current assets		(209.2)	(310.5)
Purchase of tangible non-current assets		(82.9)	(82.3)
Acquisition of activity		–	(41.0)
Sales of tangible non-current assets		–	142.7
Proceeds from sale of associated companies		12.5	–
Proceeds from sale of businesses		1,110.8	–
Received reimbursements, intangible non-current assets		12.5	7.4
Change in financial receivables		14.0	(0.9)
Cash flow from investing activities		**857.7**	**(284.6)**
Free cash flow		**912.7**	**(101.1)**
Repayment of long-term loans		(6.5)	(6.8)
Proceeds from/repayment of short-term borrowings		(10.0)	70.0
Capital increase		248.2	–
Purchase of own shares		–	–
Sale of own shares		2.6	1.2
Settlement of share options		(0.9)	–
Cash flow from financing activities		**233.4**	**64.4**

(DKK million)	*Notes*	**2014/15**	**2013/14**
Change in cash and cash equivalents		**1,146.1**	**(36.7)**
Cash and cash equivalents, 1 June		51.9	89.7
Exchange rate adjustment, cash and cash equivalents		–	(1.1)
Cash and cash equivalents, 31 May		**1,198.0**	**51.9**
Cash and cash equivalents:			
Cash		1,198.0	120.4
Current overdraft facilities		–	(68.5)
Cash and cash equivalents 31 May		**1,198.0**	**51.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Share capital	Foreign currency translation reserve	Cash flow hedge reserve	Retained earnings	Total
Equity 31 May 2014	**392.7**	**12.5**	**0.0**	**1,199.3**	**1,604.4**
Earnings for the year	–	–	–	57.0	57.0
Other comprehensive income	–	12.1	(4.6)	(4.2)	3.3
Other comprehensive income, tax	–	–	1.1	0.9	2.0
Comprehensive income for the year	–	12.1	(3.5)	53.7	62.3
Capital increase	39.3	–	–	219.9	259.2
Costs relating to capital increase	–	–	–	(10.9)	(10.9)
Grant of share options	–	–	–	4.6	4.6
Reversal of dividend	–	–	–	–	–
Sale of own shares	–	–	–	2.6	2.6
Settlement of share options	–	–	–	(0.9)	(0.9)
Equity 31 May 2015	**432.0**	**24.6**	**(3.5)**	**1,468.3**	**1,921.4**
Equity 1 June 2013	**392.7**	**22.1**	**3.0**	**1,222.4**	**1,640.2**
Earnings for the year	–	–	–	(29.0)	(29.0)
Other comprehensive income	–	(9.6)	(4.0)	(0.1)	(13.7)
Other comprehensive income, tax		–	1.0	0.0	1.0
Comprehensive income for the year	–	(9.6)	(3.0)	(29.1)	(41.7)
Grant of share options	–	–	–	4.2	4.2
Reversal of dividend	–	–	–	0.6	0.6
Sale of own shares	–	–	–	1.2	1.2
Equity 31 May 2014	**392.7**	**12.5**	**0.0**	**1,199.3**	**1,604.4**

SECTION 1

Basis of reporting

This section introduces Bang & Olufsen's financial accounting policies in general, as well as an overview of management's key accounting estimates and the new IFRS requirements. All group companies follow the same Group accounting policies. A detailed description of accounting policies related to specific reported amounts is presented in each note to the relevant financial items.

1.1 Basis of reporting

Basic principles

The consolidated financial statements of the Bang & Olufsen Group and the financial statements for 2014/15 for Bang & Olufsen a/s have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish requirements for the presentation of financial statements for listed companies (class D entities) cf. the Statutory Order on Adoption of IFRS (the Danish announcement on Adoption of IFRS) issued in accordance with the Danish Financial Statements Act.

The consolidated and the separate financial statements are presented in DKK which is the presentation currency for the Group and the functional currency for the parent company.

Assets are recognized in the balance sheet, when it is probable that future economic benefits resulting from a past event will flow to the Group. Liabilities are recognized in the balance sheet when it is probable that the Group will give up future economic benefits as a consequence of a legal or constructive obligation resulting from a past event. The value of the assets and liabilities should be able to be measured reliably.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention with the exception of derivatives which are measured at fair value.

Consolidation

The consolidated financial statements comprise the parent company, Bang & Olufsen a/s, and the companies (subsidiaries), which are controlled by the parent company. The parent company is presumed to have control, when it directly or indirectly holds more than 50 per cent of the voting rights or in other ways can exercise or is exercising controlling influence. Companies, in which the Group directly or indirectly holds between 20 per cent and 50 per cent of the voting rights and has a significant influence but not control, are regarded as associates.

The consolidated financial statements have been prepared on the basis of the financial statements of the parent company and its subsidiaries. The consolidated financial statements have been prepared by adding uniform items. The financial statements that are used for the consolidation are prepared in accordance with the Group's accounting principles. In the process of consolidation, intra-group income and expenses, intra-group accounts receivable and payable and dividend and profits and losses from transactions between the consolidated companies have been eliminated. In the consolidated financial statements the subsidiaries' items are recognised 100 per cent.

Translation of foreign currency

On initial recognition, transactions in a currency other than the company's functional currency are translated at the exchange rate prevailing at the transaction date. Receivables, payables and other monetary items in foreign currency, which have not been settled at the balance sheet date, are translated at the exchange rates prevailing at this date. Currency gains and losses arising between the transaction date and the date of payment or the balance sheet date, respectively, are recognised in the profit and loss account as financial income or financial costs. Tangible and intangible non-current assets, inventories and other non-monetary assets, which have been purchased in a foreign currency, and which are measured at historical cost prices, are translated at the exchange rate prevailing at the transaction date.

When recognising companies that present their financial statements in another functional currency than Danish kroner (DKK) in the consolidated financial statements, profit and loss accounts are translated using average exchange rates for the year. The balance sheet items are translated using the exchange rates prevailing on the balance sheet date. Goodwill is regarded as belonging to the acquired company and is translated using the exchange rates prevailing on the balance sheet date.

Translation differences arising from the translation of the foreign subsidiaries' balance sheet items at the beginning of the year to the exchange rates prevailing at the balance sheet date, and from the translation of the profit and loss accounts from average exchange rates to the balance sheet date exchange rates, are recognised in other comprehensive income. Similarly, translation differences that arise on changes made directly to the foreign company's equity are recognised in other comprehensive income.

Investments in associates

Investments in associates are recognised and measured according to the equity method in the consolidated financial statements., i.e. at the proportional share of the accounting net asset value of the companies, in accordance with the Group's accounting principles with the deduction or addition of proportional intra-group gains and losses and with the addition of a carrying amount of goodwill.

The proportional share of the companies result after tax with the reduction of any impairment losses on goodwill is recognised in the income statement.

Investments in associates with a negative net asset value are measured at DKK 0. Receivables and other non-current financial assets, which are regarded as being part of the total investment in the associate, are written down by the remaining negative net asset value. Trade receivables and other receivables are written down to the extent they are assessed to be irrecoverable.

A provision to cover the remaining negative net asset value is recognized only to the extent that the Group has a legal or constructive obligation to cover the obligations of the company in question.

New investments in associates are accounted for by using the acquisition method.

Production costs

Production costs comprise wages, consumption of stock and indirect costs, including salaries, depreciation/amortisation and impairment losses, which are incurred with the purpose of achieving the net turnover for the year.

Distribution and marketing costs

Distribution and marketing costs comprise costs relating to sales and distribution of the Group's products, including salaries for sales personnel, advertising and exhibition costs, depreciation/amortization and impairment losses. Costs in subsidiaries, which are responsible exclusively for the sale of the Group's products, are allocated to distribution and marketing costs.

Administration costs etc.

Administration costs etc. comprise costs for the administrative personnel, management and office costs etc. including depreciation/ amortisation and impairment losses.

Adoption of new or amended IFRSs

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 January 2015, it has been assessed that the application of these new IFRSs has not had a material impact on the Consolidated financial statements in 2015, and Management does not anticipate any significant impact on future periods from the adoption of these new IFRS.

New or amended the European Union endorsed accounting standards

Bang & Olufsen has adopted all new, amended standards, revised accounting standards, and interpretations (IFRIC) as endorsed by the European Union and effective for the financial year 1 June 2014 – 31 May 2015.

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 June 2015, it has been assessed that the application of these new IFRSs has not had a material impact on the consolidated financial statements in 2014/15, and management does not anticipate any significant impact on future periods from the adoption of these new IFRS.

Bang & Olufsen has thoroughly considered the impact of the new IFRS standards and interpretations, and has concluded that other standards which are effective for the financial year 1 June 2015 – 31 May 2016 are either of no relevance to the Group, or exert no material impact on the financial statements for the current year.

IASB has issued a number of new standards, amendments to existing standards and bases for conclusions, which have not yet come into force, but which will become effective in the financial year later than 2015/16. New and revised standards are expected to be implemented on the effective date. The following standards are in general expected to change current accounting regulation most significantly:

- IASB has issued IFRS 9 'Financial Instruments', with effective date probably from 1 January 2018. It currently awaits the European Union endorsement. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification and measurement of financial instruments and hedging requirements.

- IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2018. It currently awaits the European Union endorsement. IFRS 15 is part of the convergence project with FASB to replace IAS 18. The new standard will establish a single, comprehensive framework for revenue recognition.

- IASB has issued a re-exposure draft on IAS 17 'Leasing'. Depending on the wording of the final standard, the change in lease accounting is expected to require capitalization of the majority of the Group's operational lease contracts.

Management is currently assessing the potential impact on the consolidated financial statements. It is Management's immediate assessment that the changes will not have any significant impact on recognition and measuring.

1.2 Critical accounting estimates and judgements

When applying the Group's accounting principles it is necessary that management makes a number of accounting assessments and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing provisions, development projects, trade receivables, inventories and deferred tax assets.

Management bases its estimates and assumptions on historical experience and other relevant factors that are believed to be reasonable under the given circumstances. The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

The critical accounting estimates and judgements are described under the sections to which they relate:

Accounting estimate/judgement	*Note*
Deferred tax assets	*2.5*
Development projects	*3.1*
Inventories	*3.5.1*
Trade receivables	*3.5.2*
Provision for warranty and fairness	*3.7*

SECTION 2

Results for the year

This section contains notes relating to earnings for the year including operating segments, development and staff costs and taxes for the year. A detailed description of the results for the year is given in the Financial Review on pages 10-14.

2.1 Operating segment information

Accounting policies

Revenue recognition

Revenue is recognised in the income statement, when delivery and transfer of the risks of ownership to the customer has taken place, if the revenue can be measured reliably, and payment is expected to be received. Revenue is recognised net of value added tax and discounts related to the sale.

Revenue regarding sales of goods is recognised in the income statement, if the transfer of the risks of ownership to the customer has taken place before the end of the financial year.

Segment information

Segment information has been prepared in accordance with the Group's accounting principles and follows the Group's management structure and the internal management reporting that is used by top operational management to evaluate results and resource allocation.

The Group's reportable segments are:

- Bang & Olufsen
- B&O PLAY

The segments are split based on differences in the customers and products of the segments. Bang & Olufsen and B&O PLAY which has been created with a view to increase revenue and attract new potential customers to the existing Bang & Olufsen distribution. The B&O PLAY products are sold through Bang & Olufsen's B1 stores and shop-in-shops and through third party retail stores as well as online.

The segments performance measurement is gross profit. Segment income and costs include the items that can be directly attributed to the individual segment.

The segments asset measurement is a sum consisting of completed development projects, development projects in progress and trade receivables. The internal management reporting does not include segment liabilities.

In 2014/15 the Group's reportable segments have been adjusted to consist of Bang & Olufsen and B&O PLAY. The former Automotive and ICEpower segments have been excluded and are reported as discontinued operations cf. note 5.2.

Trade between the Group's reportable segments is carried out at arm's length conditions.

The Group's geographical areas are:

- Europe
- North America
- BRIC
- Rest of World

BRIC includes Brazil, Russia, India, China, Taiwan, Hong Kong and Korea.

The geographical areas are split on the basis of the location of the customers and assets.

As the Group's domicile is Denmark disclosure is also made of total non-current assets and net revenue split between Denmark and the Rest of world.

	2014/15			
(DKK million)	**Bang & Olufsen**	**B&O PLAY**	**Unallocated**	**Total**
Revenue, Group	**1,743.0**	**613.5**	**–**	**2,356.5**
Gross profit, Group	**461.4**	**167.1**	**(48.2)***	**580.3**
Gross margin – %	**26.5**	**27.2**	**–**	**24.6**
Amortization, depreciation and impairment losses	(281.7)	(41.7)	(5.0)	(328.4)
Other non-allocated capacity costs	–	–	(1,058.9)	(1,058.9)
Share of result after tax in associated companies	–	–	10.5	10.5
Financial income	–	–	24.8	24.8
Financial expenses	–	–	(30.9)	(30.9)
Earnings before tax	**–**	**–**	**(1,107.7)**	**(802.7)**
Completed development projects	318.2	24.6	–	342.8
Development projects in progress	79.6	0.7	–	80.3
Total segment assets	397.8	25.3	–	423.1
Unallocated assets	–	–	3,025.9	3,025.9
Total assets, Group	**397.8**	**25.3**	**3,025.9**	**3,449.0**
Denmark	1,043	31	–	1,074
Rest of world	981	15	–	996
Average number of full-time employees, Group	**1,975**	**46**	**–**	**2,070**

* *Unallocated costs include cost for shared functions previously allocated to discontinued operations.*

* *Comparative figures for 2013/14 have been adjusted to reflect that the discontinuing operations have been separated.*

	2013/14			
(DKK million)	**Bang & Olufsen**	**B&O PLAY**	**Unallocated**	**Total**
Revenue, Group	**1,628.0**	**534.7**	**–**	**2,161.7**
Gross profit, Group	**718.2**	**170.2**	**(58.7)***	**829.7**
Gross margin – %	**44.1**	**31.8**	**–**	**38.4**
Amortization, depreciation and impairment losses	(234.3)	(44.3)	(2.3)	(280.9)
Other non-allocated capacity costs	–	–	(809.5)	(809.5)
Share of result after tax in associated companies	–	–	3.2	3.2
Financial income	–	–	5.6	5.6
Financial expenses	–	–	(34.5)	(34.5)
Earnings before tax	**–**	**–**	**(896.2)**	**(286.4)**
Completed development projects	260.5	28.1	–	288.6
Development projects in progress	173.9	8.7	–	182.5
Total segment assets	434.3	36.8	–	471.1
Unallocated assets	–	–	2,421.0	2,421.0
Total assets, Group	**434.3**	**36.8**	**2,421.0**	**2,892.1**
Denmark	1,107	21	–	1,128
Rest of world	897	2	–	898
Average number of full-time employees, Group	**2,003**	**23**	**–**	**2,026**

* *Unallocated costs include cost for shared functions previously allocated to from discontinued operations.*

	Total non-current assets		Total revenue	
(DKK million)	**2014/15**	**2013/14**	**2014/15**	**2013/14**
Geographical information*				
Europe	701.1	876.5	1,421.7	1,335.0
North America	8.7	7.6	165.2	159.8
BRIC	38.1	42.3	307.3	306.1
Rest of world	–	2.7	218.0	225.2
Total Bang & Olufsen distribution	747.9	929.1	2,112.2	2,026.0
B&O PLAY	–	–	244.3	135.7
Total third party distribution and e-commerce	–	–	244.3	135.7
Total – Group	**747.9**	**929.1**	**2,356.5**	**2,161.7**
Denmark	597.5	875.6	312.4	272.2
Rest of world	150.4	53.5	2,044.1	1,889.5
Total	**747.9**	**929.1**	**2,356.5**	**2,161.7**

Non-current assets do not include deferred tax assets, pension assets and non-current financial instruments.

Bang & Olufsen Group has no transactions with individual customers which make up more than 10 per cent of the Group's revenue.

The Group's total revenue is almost exclusively derived from the sale of goods (99.9 per cent in 2014/15 and 99.9 per cent in 2013/14).

2.2 Staff costs

(DKK million)	**2014/15**	**2013/14**
Wages and salaries etc.	732.9	646.8
Share-based payment	4.3	3.8
Pensions	45.6	42.5
Other social security costs	41.3	37.4
Total	**824.1**	**730.5**
Expensed as follows:		
Production costs	405.8	368.5
Development costs	118.7	131.9
Distribution- and marketing costs	238.1	189.9
Administration costs	61.5	40.2
Total	**824.1**	**730.5**
Average number of full-time employees	**2,070**	**2,026**

(DKK million)

	2014/15			**2013/14**		
Whereof to:	**Board**	**Executive Management**	**Other key employees**	**Board**	**Executive Management**	**Other key employees**
Wages, salaries and fees	3.7	9.4	14.1	3.7	8.4	12.9
Pensions	–	0.4	1.6	–	–	1.3
Bonus	–	–	2.2	–	0.5	1.2
Total	3.7	9.8	17.9	3.7	8.9	15.4
Share-based payment	–	2.1	1.5	–	2.3	1.4
Total remuneration	3.7	11.9	19.4	3.7	11.1	16.8

In 2014/15 there were 8 members of staff in the group 'Other key employees', which is unchanged from last year.

(DKK million)	**2014/15**	**2013/14**
Specified as follows:		
Remuneration of Executive Management:		
Tue Mantoni	7.3	7.7
Anders Aakær Jensen (appointed 01.08.2014)	2.4	–
Stefan K Persson (appointed 01.10.2014)	1.5	–
Henning Bejer Beck (resigned 31.07.2014)	0.8	2.8
John Bennett-Therkildsen	–	0.6
Total	**11.9**	**11.1**

The value of the share-based payment expresses the group income statement effect of allocated share options. Please see note 4.7 for further information.

Refer to note 4.7 for further information about the Group's share option programme.

(DKK million)	**2014/15**	**2013/14**
Remuneration of the Board:		
Ole Andersen *(chairman)*	0.9	0.9
Jim Hagemann Snabe *(deputy chairman)*	0.6	0.6
Jesper Jarlbæk	0.4	0.4
Majken Schultz	0.3	0.2
Albert Bensoussan (appointed 10.09.2014)	0.2	–
Mads Nipper (appointed 10.09.2014)	0.2	–
Knud Olesen	0.3	0.3
Jesper Olesen	0.3	0.3
Per Østergaard Frederiksen	0.3	0.3
André Loesekrug-Pietri (resigned 10.09.2014)	0.1	0.3
Rolf Eriksen (resigned 10.09.2014)	0.1	0.3
Alberto Torres (resigned 19.09.2013)	–	0.1
Total	**3.7**	**3.7**

2.3 Development costs

Accounting policies

Development costs, which do not meet the criteria for capitalization as defined in note 3.1 are recognised in the income statement as development costs along with amortization and impairment losses on capitalized development projects.

(DKK million)	**2014/15**	**2013/14**
Incurred development costs before capitalization	369.7	285.0
Hereof capitalized	(159.2)	(176.1)
Incurred development costs after capitalization	210.5	108.9
Capitalization (%)	*43.1*	*61.8*
Total amortization charges and impairment losses on development projects	238.0	183.9
Total	**448.5**	**292.8**

In 2013/14 there were in addition to the incurred development costs above further additions of DKK 47.5 million to capitalized development costs ref note 3.1. These additions related to key components and technologies acquired from third parties.

2.4 Fees to auditors appointed at the Annual General Meeting

(DKK million)	**2014/15**	**2013/14**
Statutory audit	2.2	2.1
Other assurance services	0.2	0.5
Tax services	1.1	0.4
Other services	3.0	0.8
Total	**6.5**	**3.8**

EY were re-appointed as auditors at the Annual General Meeting on 10 September 2014.

2.5 Taxation

Accounting policies

Tax for the year, which includes the current tax and changes in deferred tax for the year, is recognised in profit or loss with the share that is attributable to the result for the year and in other comprehensive income or directly in equity with the share, which can be attributed to entries made in other comprehensive income or directly in equity, respectively.

Current income tax payable and current income tax receivable is recognised in the balance sheet as the tax calculated on the year's taxable income adjusted for prepaid tax.

When calculating current tax for the year the tax rates and regulations prevailing at the balance sheet date in the different countries are used.

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the tax base and the carrying amount of assets and liabilities, except for deferred tax on temporary differences that arise either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, and where the temporary difference on initial recognition affects neither accounting profit or loss nor the taxable income.

Deferred tax on temporary differences relating to investments in subsidiaries and associates is recognised, unless the parent company is able to control when the deferred tax is realised, and it is probable that the deferred tax will not be realised as current tax within the foreseeable future.

The deferred tax is calculated based on the planned use of each asset and settlement of each liability, respectively.

The deferred tax is measured using the tax rates and regulations in the different countries, which – based on the laws that have been enacted or substantively enacted at the balance sheet date – are expected to prevail, when the deferred tax is expected to be realized as current tax. The change in deferred tax due to changes in tax rates or regulations is recognised in profit or loss, unless the deferred tax is attributable to transactions, which have previously been recognised directly in equity or in other comprehensive income. In the latter case the change is also recognised directly in equity or in other comprehensive income, respectively.

Deferred tax assets, including the tax value of any tax loss carryforwards, are recognised in the balance sheet at the value, the asset is expected to be realised at, either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date it is assessed, if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised.

The parent company is jointly taxed with all Danish subsidiaries. The current Danish corporation tax is distributed between the jointly taxed companies in proportion to their taxable income.

Critical accounting estimates and judgements

Deferred tax assets are recognised in the balance sheet at the value, the asset is expected to be realised at, either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date it is assessed, if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised. The deferred tax assets amount to DKK 187.5 million as at 31 May 2015 (DKK 180.4 million as at 31 May 2014).

(DKK million)	**2014/15**	**2013/14**
Tax recognised in Income statement		
Corporation tax, continuing operations	(195.4)	(58.7)
Corporation tax, discontinued operations	204.1	65.4
Total	**8.7**	**5.8**
Income statement and other comprehensive income		
Current tax charge/credit	18.1	(17.1)
Adjustment for prior periods, current tax	(6.3)	(0.5)
	11.8	(17.6)
Change in deferred tax	(10.3)	10.8
Adjustment of deferred tax prior years	8.8	(8.0)
Adjustments from change in tax rate	(2.7)	19.6
	(4.2)	22.4
Total taxation charge in the income statement	**7.6**	**4.8**
Tax recognised in:		
Income statement	8.7	5.8
Other comprehensive income	(1.1)	(1.0)
Total	**7.6**	**4.8**

Tax on other comprehensive income relates to change in fair value of derivative financial instruments used as cash flow hedges, and is recognised in retained earnings.

The taxation charge in the income statement that would arise at the standard rate of DK corporation tax is reconciled to the actual tax charge as follows:

(DKK million)

	2014/15		2013/14	
Tax calculated on earnings before tax	23.5%	16.2	24.5%	(5.6)
Non-deductible costs and non-taxable income	0.6%	0.4	(7.8%)	1.8
Deviating tax rates in foreign subsidiaries	4.7%	2.7	(2.2%)	0.5
Changes in tax rates	(3.8%)	(2.7)	(84.8%)	19.6
Adjustments to prior periods	3.6%	2.5	34.3%	(8.0)
Re-capitalised tax loss carry-forwards	(15.6%)	(10.7)	7.9%	(1.8)
Foreign withholding tax	0.2%	0.2	0.5%	(0.1)
Non-taxable dividends/profit from subsidiaries and associates	(0.6%)	(0.4)	3.9%	(0.9)
Other	0.6%	0.5	(1.4%)	0.3
Annual effective tax rate/taxation charge in income statement	**13.2%**	**8.7**	**(25.1%)**	**5.8**

Balance sheet

(DKK million)

Deferred tax assets	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 2013	75.4	12.3	7.7	20.2	66.7	0.8	183.1
Changes in tax rates	(13.0)	(1.0)	–	(0.5)	(5.1)	–	(19.6)
Recognised in the income statement	36.3	0.3	1.4	(9.4)	(12.5)	0.8	16.9
Deferred tax assets 31 May 2014	98.7	11.6	9.1	10.3	49.1	1.6	180.4
Changes in tax rates	0.9	0.5	–	0.8	0.5	–	2.7
Recognised in the income statement	(25.9)	(12.5)	(0.1)	6.9	(5.3)	41.3	4.4
Deferred tax assets 31 May 2015	**73.7**	**(0.4)**	**9.0**	**18.0**	**44.3**	**42.9**	**187.5**

Deferred tax assets relate to the subsidiaries in Norway, Sweden, Germany, the UK, Belgium, France, Italy, Spain, the US, Singapore and the jointly-taxed Danish companies. Deferred tax assets have been calculated based on local tax rates.

Other includes deferred tax assets of DKK 32.6 milion from deferred income.

In 2014/15 a deferred tax assets of DKK 14.4 million has been recognised in the jointly-taxed Danish companies based on tax loss carry-forwards, which can be indefinitely carried forward. This deferred tax asset has been recognised on the basis of management's expectations of the Group's long-term earnings up to 5 years.

In 2014/15 has Bang & Olufsen US capitalised DKK 11.1 million of the total losses carried forward. The recognition in Bang & Olufsen US is based on the expectations to future earnings in the US subsidiary. The unrecognised deferred tax assets amount to DKK 45.3 million. The basis for the remaining unrecognised deferred tax assets includes tax losses of DKK 128.3 million. The tax losses can be carried forward for a period of one to 20 years.

(DKK million)

Deferred tax	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry forwards	Other	Total
Deferred tax liabilities 1 June 2013	14.1	(0.4)	(0.3)	(1.3)	(0.7)	2.4	13.8
Recognised in the income statement	(3.8)	–	(0.5)	0.3	0.7	(2.8)	(6.1)
Deferred tax liabilities 31 May 2014	10.3	(0.4)	(0.8)	(1.0)	–	(0.4)	7.7
Recognised in the income statement	2.8	0.2	(0.2)	0.8	(0.8)	0.1	2.9
Deferred tax liabilities 31 May 2015	**13.1**	**(0.2)**	**(1.0)**	**(0.2)**	**(0.8)**	**(0.3)**	**10.6**

Deferred tax has been provided for based on local tax rates.

Deferred tax on temporary differences relating to investments in subsidiaries and associates has not been recognised, since the parent company is able to control when the deferred tax is realised, and it is assessed to be probable that the deferred tax will note be realised as current tax within the foreseeable future.

2.6 Earnings per share

(DKK million)

2014/15	**Basic**	**Diluted**
Earnings for the year – continued operations	(607.3)	(607.3)
Earnings for the year	57.0	57.0
Weighted average number of shares in issue – million	42.9	42.9
Dilution due to share options	–	–
Total weighted average number of ordinary shares in issue – million	42.9	42.9
Earnings per ordinary share – continued operations	(14.2)	(14.2)
Earnings per ordinary share	1.3	1.3

2013/14	**Basic**	**Diluted**
Earnings for the year – continued operations	(227.7)	(227.7)
Earnings for the year	(29.0)	(29.0)
Weighted average number of shares in issue – million	39.2	39.2
Dilution due to share options	–	–
Total weighted average number of ordinary shares in issue – million	39.2	39.2
Earnings per ordinary share – continued operations	(5.8)	(5.8)
Earnings per ordinary share	(0.7)	(0.7)

SECTION 3

Operating assets and liabilities

This section contains notes relating to the assets that form the basis for the activities in the Bang & Olufsen Group and the related liabilities.

3.1 Intangible assets

Accounting policies

Asset class	Recognition	Valuation	Amortisation method	Estimated useful life
Goodwill	When recognising goodwill, the goodwill amount is allocated to those of the Group's activities that generate independent cash flows (cash-generating units). The definition of cash-generating units is in accordance with the managerial structure and the internal management accounting and reporting in the Group.	Goodwill is initially recognised and measured as the difference between on the one hand, the cost price of the acquired company, the value of minority interests in the acquired company and the acquisition-date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities.	N/A	Unlimited – tested for impairment annually.
Development projects (under construction)	Clearly defined and identifiable projects if probable that they can be marketed as new products in a potential market.	Measured at cost price. This comprises costs, including salaries and depreciation/amortisation that relate directly to the development projects, and which are necessary to complete the project from the time when the development project initially meets the criteria for recognition as an asset. Reimbursements and grants are deducted from the cost price.	N/A	N/A until completed – tested for impairment annually.
Development projects (completed)		Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	2-6 years for completed development projects, or over remaining term of intellectual property right if less
Acquired rights	Software, key money and patents.	Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	Over the shorter of the estimated useful life and the term of the contract.

Critical accounting estimates and judgements

Development costs are capitalized only after technical and commercial feasibility of the projects have been established. In connection with the capitalization of development costs, the expected useful life of the product is to be determined. Management has assessed that the amortization period is usually 2-6 years. Management also makes assumptions when assessing the possible impairment of development projects. The applied principles are unchanged from the 2013/14 financial year. Development projects amount to DKK 392.4 million as at 31 May 2015 (DKK 723.8 million as at 31 May 2014). The main additions in the 2014/15 financial year are development projects relating to TV platform and speakers.

Impairment

The carrying amount of intangible non-current assets with a definite useful life is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

For development projects in progress and goodwill the recoverable amount is determined at least once a year whether or not there are indications of impairment.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to reduce first any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit, in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount the asset's or the cash-generating unit's carrying amount is increased to the adjusted recoverable amount, however not exceeding the carrying amount the asset or the cash-generating unit would have had if it had not been impaired. Impairment of goodwill is not reversed.

(DKK million)

	Goodwill	Acquired rights	Completed development projects	Development projects in progress	Total
Cost					
At 1 June 2013	54.5	166.9	1,320.1	178.2	1,719.7
Exchange rate adjustment to year-end rate	(0.1)	–	–	–	(0.1)
Additions in the year	11.9	4.2	73.2	233.4	322.7
Reimbursements received	–	–	–	(7.4)	(7.4)
Disposals in the year	(0.1)	(7.0)	(374.3)	–	(381.4)
Completed development projects	–	–	86.6	(86.6)	–
At 31 May 2014	66.2	164.1	1,105.6	317.6	1,653.5
Exchange rate adjustment to year-end rate	4.3	–	–	–	4.3
Additions in the year	2.8	1.1	81.1	124.2	209.2
Reimbursements received	–	–	–	(9.2)	(9.2)
Disposals in the year	(2.1)	–	(167.9)	(1.3)	(171.3)
Disposals in the year from sale of businesses	–	(3.8)	(302.3)	(104.9)	(411.0)
Transfer to assets held for sale	–	(1.5)	(44.3)	(24.3)	(70.1)
Completed development projects	–	–	221.8	(221.8)	–
At 31 May 2015	**71.2**	**159.9**	**894.0**	**80.3**	**1,205.4**
Amortisation and impairment					
At 1 June 2013	(2.6)	(146.2)	(835.4)	–	(984.2)
Exchange rate adjustment to year-end rate	(0.1)	–	–	–	(0.1)
Amortisation during the year	–	(7.1)	(238.3)	–	(245.4)
Reversed amortisation on disposals	–	3.7	374.3	–	378.0
At 31 May 2014	(2.7)	(149.6)	(699.4)	–	(851.7)
Exchange rate adjustment to year-end rate	(0.4)	–	–	–	(0.4)
Amortisation during the year		(6.4)	(253.2)	–	(259.6)
Impairment losses during the year	–	–	(30.7)	–	(30.7)
Reversed amortisation on disposals	2.1	–	167.9	–	170.0
Reversed amortisation on disposals from sale of businesses	–	2.6	199.3	–	201.9
Assets transfered to held for sale	–	1.5	34.2	–	35.7
At 31 May 2015	**(1.0)**	**(151.9)**	**(581.9)**	**–**	**(734.8)**
Net book value					
At 31 May 2015	**70.2**	**8.0**	**312.1**	**80.3**	**470.6**
At 31 May 2014	63.5	14.5	406.2	317.6	801.8

Impairment losses during the year

Goodwill

The majority of the Group's goodwill (DKK 41.7 million) is related to the acquisition of the Dutch distribution in 2004/05. The goodwill is allocated to the cash-generating unit, which includes the activities in Holland. DKK 20.0 million relate to the take over of 20 shops from the previous master dealer Richcom in China in 2013/14. The goodwill is allocated to the cash-generating unit, which includes the activities in BRIC. The goodwill relates in its entirety to the business segment Bang & Olufsen. No impairment losses have been recognised on cash-generating units which include goodwill in 2014/15 or 2013/14 in the Group.

The assessment of the recoverable amount of the cash-generating units which include goodwill is based on calculations of value in use, which is calculated based on expected future cash flows according to the company's strategy and forecasts for the coming 2 financial years. The terminal value is determined on the assumption of a growth of 2 per cent (2013/14; 2.0 per cent). The growth rate is not expected to exceed the long-term growth rate. A discount rate before tax of 9 per cent is used (6.9 per cent after tax) (2013/14; 10 per cent/7.6 per cent).

Development projects

The assessment of the recoverable amount of the intangible assets excl. goodwill is based on calculations of value in use of the assets. The value in use is calculated based on expected future cash flows from the assets based on the budgets approved by management over the expected life-time of the assets, and a discount rate before tax of 10 per cent (2013/14; 10.0 per cent).

Further it has been assesed whether impairments are required on any individual development projects. During 2014/15 impairment losses of DKK 30.7 million have been recognised on development projects related to terminated products (2013/14; DKK 0 million).

(DKK million)	**2014/15**	**2013/14**
Amortisation and impairment losses		
Production costs	4.3	4.1
Development costs	283.8	239.2
Distribution- and marketing costs	2.0	1.9
Administration costs	0.2	0.2
Total	**290.3**	**245.4**

3.2 Tangible assets

Accounting policies

Tangible non-current assets are measured at cost price with deduction of accumulated depreciation and impairment losses.

The cost price comprises the acquisition price and costs directly related to the acquisition until the time, when the asset is ready for use. For self-constructed non-current assets, the cost price comprises direct costs for wages, materials, components and sub-suppliers.

Reimbursements and grants concerning tangible non-current assets are deducted from the cost price.

Interest expenses related to financing of the construction of qualifying tangible non-current assets are recognised in the cost price of the assets, if they relate to the period of construction.

The cost price of a tangible non-current asset is divided into individual components, which are depreciated separately, if the expected useful life differs for the individual components.

For tangible non-current assets held under finance leases, the cost price equals the lower of fair value of the assets and the present value of the future minimum lease payments. The interest rate implicit in the lease or the incremental borrowing rate is used as discount rate, when calculating the present value.

Asset class	Asset type	Depreciation policy
Land & Buildings	Land	None
	Buildings	Straight-line over 40 years
	Interior refurbishment/ special installations	Straight-line over 10 years
Plant & machinery	Single purpose production tools	Straight-line over 3-6 years
	Other	Straight-line over 8-10 years
Other equipment	Other equipment	Straight-line over 3-10 years
Leasehold improvements	Leasehold improvements	Straight-line over term of lease, max 10 years
Tangible assets in course of construction	Tangible assets in course of construction	None

Impairment

The carrying amount of tangible non-current assets is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to first reduce any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit, in a way so that no asset is reduced to a value below its fair value less costs to sell.

In 2014/15 impairment losses have been recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount the asset's or the cash-generating unit's carrying amount is increased to the adjusted recoverable amount, however not exceeding the carrying amount the asset or the cash-generating unit would have had, had it not been impaired.

Impairment losses on individual tangible assets of DKK 17.4 million have been recognised relating to assets no longer used (2013/14 DKK 0 million).

(DKK million)

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 1 June 2013	482.8	1,240.9	202.6	72.8	67.5	2,066.6
Exchange rate adjustment to year-end rate	(6.5)	(3.2)	(0.4)	(1.5)	–	(11.6)
Reclassification	–	–	0.3	(0.3)	–	–
Additions in the year	4.2	22.7	9.9	25.7	24.8	87.3
Completed assets	0.5	11.6	3.7	–	(15.8)	–
Disposals in the year	(99.4)	(21.7)	(8.4)	(16.9)	(46.7)	(193.1)
At 31 May 2014	381.6	1,250.3	207.7	79.8	29.8	1,949.2
Exchange rate adjustment to year-end rate	0.8	(0.1)	5.5	10.4	0.2	16.8
Additions in the year	6.8	28.4	16.3	19.4	12.0	82.9
Completed assets	1.2	25.0	0.5	0.7	(27.4)	–
Disposals in the year	(3.6)	(20.8)	(13.0)	(11.5)	(0.4)	(49.3)
Disposals in the year from sale of businesses	–	(136.6)	(16.2)	(8.9)	(4.0)	(165.7)
Transfer to assets held for sale	–	(2.1)	(6.3)	(0.9)	(1.1)	(10.4)
At 31 May 2015	**386.8**	**1,144.1**	**194.5**	**89.0**	**9.1**	**1,823.5**
Amortisation and impairment						
At 1 June 2013	(284.6)	(1,085.3)	(178.2)	(42.6)	–	(1,590.7)
Exchange rate adjustment to year-end rate	1.8	2.9	0.4	0.6	–	5.7
Reclassification			(0.1)	0.1		
Depreciation during the year	(12.7)	(64.9)	(9.5)	(12.7)	–	(99.8)
Reversed depreciation on disposals	28.6	20.5	6.5	14.3	–	69.9
At 31 May 2014	(266.9)	(1,126.8)	(180.9)	(40.3)	–	(1,614.9)
Exchange rate adjustment to year-end rate	(0.3)		(3.1)	(4.1)	–	(7.5)
Depreciation during the year	(10.8)	(60.2)	(11.3)	(18.0)	–	(100.3)
Impairment losses during the year	(4.4)	(12.2)	(0.8)	–	–	(17.4)
Reversed depreciation on disposals	0.2	21.8	12.2	9.8	–	44.0
Reversed amortisation on disposals from sale of businesses	–	100.4	11.0	7.6	–	119.0
Reversed depreciation on assets transfered to held for sale	–	1.8	5.2	0.9	–	7.9
At 31 May 2015	**(282.2)**	**(1,075.2)**	**(167.7)**	**(44.1)**	**–**	**(1,569.2)**
Net book value						
At 31 May 2015	**104.6**	**68.9**	**26.8**	**44.9**	**9.1**	**254.2**
At 31 May 2014	114.7	123.5	26.8	39.5	29.8	334.3

There are no contractual obligations regarding purchase of tangible assets.

(DKK million)	**2014/15**	**2013/14**
Depreciation and impairment losses		
Production costs	84.5	57.2
Development costs	7.6	12.9
Distribution- and marketing costs	25.0	27.2
Administration costs etc.	0.6	2.5
Total	**117.7**	**99.8**

Impairment losses of DKK 17.4 million have been recognised in relation to tangible assets during 2014/15 (2013/14 DKK 0 million).

3.3 Investment property

Accounting policies

Investment property is property held to earn rental income or for capital appreciation.

Investment property is measured at cost price with deduction of accumulated depreciation and impairment losses. Investment property is depreciated on a straight-line basis over 40 years.

Impairment losses of DKK 20.2 million have been recognised in relation to change in use of investment property during 2014/15 (2013/14 DKK 0 million).

(DKK million)	
Cost	
At 1 June 2013	79.9
At 31 May 2014	79.9
At 31 May 2015	**79.9**

(DKK million)	
Depreciation and impairment	
At 1 June 2013	(39.9)
Depreciation during the year	(1.3)
At 31 May 2014	(41.2)
Depreciation during the year	(1.3)
Impairment losses during the year	(20.2)
At 31 May 2015	**(62.8)**
Net book value	
At 31 May 2015	**17.2**
At 31 May 2014	38.6

Investment property consists of a building that is used only for rental purposes, and the property that is partly used by Bang & Olufsen Medicom a/s.

External rental income of DKK 2.5 million has been received from the investment property in 2014/15 (2013/14; DKK 2.3 million), and directly attributed operating expenses were DKK 1.5 million (2013/14; DKK 1.6 million).

The property is leased on operating leases with a remaining duration of 46 months. According to the existing operating leases a rental income of DKK 2.5 million will be received in 2015/16.

3.4 Other financial receivables

(DKK million)	
Cost	
At 1 June 2013	54.8
Exchange rate adjustment to year-end rate	1.6
Changes in the year	(1.9)
At 31 May 2014	54.5
Exchange rate adjustment to year-end rate	3.2
Changes in the year	89.0
At 31 May 2015	**146.7**
Impairment	
At 1 June 2013	(12.1)
Exchange rate adjustment to year-end rate	(0.5)
Impairment reversals/losses during the year	2.3
At 31 May 2014	(10.3)
Exchange rate adjustment to year-end rate	(1.1)
Impairment reversals/losses during the year	(12.0)
At 31 May 2015	**(23.4)**
Net book value	
At 31 May 2015	**123.3**
At 31 May 2014	44.2

The fair value of other financial receivables in the Group amounts to DKK 123.3 million (DKK 44.2 million in 2013/14).

The fair value is calculated as the present value of the future expected cash flows from the receivables.

3.5 Working capital

Accounting policies

Inventories

Inventories are measured at the lower of cost price according to the FIFO principle and net realisable value. The cost price of raw materials, consumables and purchased goods comprises the acquisition price including delivery costs. The cost price of finished goods and work in progress comprises costs of materials and direct labour plus indirect production costs.

Indirect production costs include indirect materials and wages, maintenance and depreciation on plant and machinery, factory buildings and other equipment used in the production process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the expected selling price less costs of completion and costs necessary to make the sale.

Receivables

Receivables comprise trade receivables, other financial receivables primarily loans to external parties and other receivables. The receivables are categorised as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

On initial recognition, the receivables are measured at fair value and subsequently at amortised cost price, which normally correspond to face value less provisions for expected losses. Provisions for losses are based on an individual assessment of each outstanding account.

Prepayments

Prepayments comprise incurred costs related to the following financial years. The prepayments are measured at cost price.

Other financial liabilities

Other financial liabilities comprise trade payables and other payables to public authorities etc. and are measured at amortised cost price.

Deferred income

Deferred income comprises received payments related to income in the following financial years. Deferred income is measured at cost price.

Critical accounting estimates and judgements

Trade receivables

Specific estimates of trade receivables are made on an assessment of the dealer's historical ability to pay and the current situation. The applied principles are unchanged from the 2013/14 financial year. The trade receivables amount to DKK 456.6 million as at 31 May 2015 (DKK 537.4 million as at 31 May 2014).

Inventories

A specific assessment of the need for write-downs for obsolescence of inventories is made based on an assessment of the future sales potential. During the assessment the expected technological developments and the expected service periods are taken into account. In 2014/15 a change in the method for estimating the net realisable value of spare parts has been implemented. The changed estimate has been implemented as it is management's view that the new method reflect the current use of spare parts more reliabily. The change has resulted in a further write-down of inventory of approximately DKK 40 million compared to the estimate used in previous years. Estimates for other inventories than spare parts are unchanged from the 2013/2014 financial year. Inventories amount to DKK 533.1 million as at 31 May 2015 (DKK 666.2 million as at 31 May 2014).

3.5.1 Inventories

(DKK million)	**2014/15**	**2013/14**
Raw materials	132.8	140.0
Work in progress	30.4	37.1
Spare parts	75.1	113.6
Finished goods	294.8	375.4
Total 31 May	**533.1**	**666.2**

It is Group policy that spare parts should be available for a number of years after sale of the product. DKK 38.2 million (2013/14; DKK 57.8 million) out of the DKK 75.1 million in spare parts, is expected to be realised in the period after more than 12 months.

Other disclosures:

(DKK million)	**2014/15**	**2013/14**
Inventory movement recognised in production costs	1,654.0	1,303.5
Impairment of inventories recognised in production costs	60.0	12.9
Reversal of impairment of inventories recognised in production costs	1.9	2.8

Reversal of impairment of inventories is, as in the previous year, a result of better than expected sales of impaired inventories.

3.5.2 Trade receivables

(DKK million)	**2014/15**	**2013/14**
Trade receivables at 31 May (gross)	577.3	634.6
Impairment 1 June	(97.2)	(91.9)
Exchange rate adjustment to year-end rate	0.1	(0.2)
Change in impairment during the year	(59.8)	(7.3)
Actual losses during the year	36.2	2.2
Impairment 31 May	(120.7)	(97.2)
Trade receivables at 31 May (net)	**456.6**	**537.4**

All trade receivables fall due within one year.

Financial income of DKK 4.2 million (2013/14; DKK 4.2 million) has been recognised in the Group relating to impaired trade receivables.

Impairment of trade receivables is recognised in distribution and marketing costs in the income statement. The impairment charge is based on an individual assessment of each individual debtor's ability to pay. All overdue trade receivables are provided for, except for those where sufficient collateral has been obtained.

The carrying amount of receivables which fall due within 1 year after the end of the financial year, is expected to be a reasonable approximation of the fair value.

(DKK million)	**2014/15**	**2013/14**
Maturity analysis:		
Amounts not due	388.3	461.1
Overdue up to 30 days	30.8	5.9
Overdue between 30 and 60 days	13.4	12.9
Overdue between 60 and 90 days	9.2	5.2
Overdue between 90 and 120 days	8.7	6.4
Overdue more than 120 days	6.2	45.9
Trade receivables at 31 May (net)	**456.6**	**537.4**

For further details about the credit risk associated with the trade receivables, refer to Note 4.3 Financial Instruments.

3.6 Pensions

Accounting policies

As employer, the Bang & Olufsen Group participates in pension plans according to normal practice in the countries in which the Group operates. There are two types of plans; defined contribution plans and defined benefit plans.

Under **defined contribution plans** the Group recognises the pension contributions, which can either be a fixed amount of a fixed percentage of the monthly salary, in the income statement as they are paid to independent pension insurance companies. Any unpaid contributions are recognised in the balance sheet as a liability in other liabilities. Once the contributions have been paid the Group has no further obligations and the individual employee carries the risk for the value of the pension insurance at retirement. All pension plans in Denmark and most pension plans in the foreign subsidiaries are defined contribution plans.

Under **defined benefit plans** the Group has an obligation to pay a fixed amount or a fixed percentage of the salary at retirement. This means that the Bang & Olufsen carries the risk of any changes in the actuarially calculated capital value of the pension plans. Bang & Olufsen currently operates with defined benefit plans in Germany and in Norway.

Annual actuarial calculations are made of the present value of the future benefits that the employees are entitled to. The present value is calculated based on a number of assumptions relating to the future development in salary levels and interest-, inflation-, and mortality rates. The present value of the defined benefit obligation net of the fair value of the plan assets is recognised in the balance sheet as a pension asset or a pension liability.

Changes in the assumptions mentioned above as well as differences between the expected and the realised return on plan assets cause actuarial gains and losses are recognised immediately in other comprehensive income in the period in which they arise.

If the defined benefit plan is a net asset, the asset is recognised only if it corresponds to, or is lower than, the sum of unrecognised actuarial losses, unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Changes to the benefits, which relate to the employees' previous employment in the Group, cause a change in the actuarially calculated present value, which is regarded as past service costs. If the covered employees are immediately entitled to the changed benefit the change is recognised in the income statement at once. Otherwise the change is recognised in the income statement during the period, where the employees become entitled to the changed benefit.

(DKK million)	**2014/15**	**2013/14**
Amounts recognised in the income statement:		
Defined contribution plans	47.8	45.6
Defined benefit plans	1.1	1.9
Total pension amount charged to the income statement	48.9	47.5
Amounts recognised in the balance sheet:		
Wholly unfunded defined benefit plans	3.3	3.6
Wholly or partly funded defined benefit plans	28.2	24.6
Present value of defined benefit obligation 31 May	31.5	28.2
Fair value of plan assets	(13.8)	(14.8)
Unrecognised actuarial(gains) and losses	–	–
Defined benefit plans obligation 31 May	17.7	13.4
Actual return on plan assets	0.2	0.2

The Group's defined benefit plans are administered by independent pension funds. None of the plan assets are connected to any of the Group companies.

The defined benefit plans in Germany and Norway are partly funded by means of an independent pension fund.

	Germany		Norway	
(DKK million)	**2014/15**	**2013/14**	**2014/15**	**2013/14**
Actuarial assumptions:				
Calculation rate p.a.	1.6%	3.0%	2.3%	4.0%
Expected salary increase p.a.	1.5%	1.5%	2.75%	3.75%
Expected rate of return p.a.	1.6%	3.0%	2.3%	4.0%

(DKK million)	**2014/15**	**2013/14**
Germany:		
Present value of future payments	20.9	18.1
Fair value of plan assets	(8.3)	(8.4)
Actuarially calculated net obligation	12.6	9.7
Norway:		
Present value of future payments	7.3	6.5
Fair value of plan assets	(5.5)	(6.4)
Actuarially calculated net receivable	1.8	0.1
Net obligation	14.4	9.8
Wholly unfunded defined benefit plans	3.3	3.6
Defined benefit plans 31 May, net	**17.7**	**13.4**

(DKK million) **5 year overview:**	**2014/15**	**2013/14**	**2012/13**	**2011/12**	**2010/11**
Present value of defined benefit obligation	31.5	28.2	27.2	26.2	23.8
Fair value of plan assets	(13.8)	(14.8)	(14.6)	(14.9)	(14.6)
Deficit, defined benefit plans	17.7	13.4	12.6	11.3	9.2
Experience-based adjustments of defined benefit obligation	4.2	1.2	1.4	1.7	0.6
Experience-based adjustments of plan assets for defined benefit plans	(0.6)	0.6	(0.0)	(0.1)	(0.4)

3.7 Provisions

Accounting policies

Provisions comprise provisions for warranty, provisions for fairness and other provisions. Provisions for warranty are obligations to repair products within the warranty period, whereas provisions for fairness are obligations to repair products after the end of the warranty period.

Provisions are recognised when the Group has a legal or constructive obligation as a result of events in the financial year or previous years, and it is probable that an outflow of financial resources will be required to settle the obligation.

Provisions are measured on basis of past experience with warranty repairs and other obligations. Provisions that are expected to fall due more than one year after the balance sheet date are measured at present value.

Critical accounting estimates and judgements

The Bang & Olufsen Group repairs or replaces products that do not function satisfactorily both within the warranty period and in certain situations after the warranty period. Consequently provisions are made for future repairs and returns. The provisions are made based on historical statistics of repairs and returns and based on management's judgements.

The future repairs and returns can differ from the historical pattern, but management assesses that the estimate of the provisions is reasonable and appropriate.

The Group provides 2-5 years of warranty on certain products and is therefore committed to repairing or replacing products which do not function satisfactorily. Some products are repaired after the end of the warranty period, and a provision is made regarding this potential fairness claim.

Provisions for warranty and fairness of DKK 58.8 million have been recognized as at 31 May 2015 (2013/14; DKK 51.7 million) to cover expected warranty and fairness claims. The size and timing of the provisions are based on previous experience of the level and timing of repairs and returns. The principles are unchanged from the 2013/14 financial year. No reimbursements will be received from third parties to cover the provisions.

(DKK million)	**Warranty and fairness**	**Employee anniversary benefits**	**Other obligations**	**Total**
At 1 June 2013	70.9	8.0	18.4	97.3
Exchange rate adjustment to year-end rate	(0.4)	0.1	(0.4)	(0.7)
Provisions in the year	26.6	0.3	2.1	28.9
Provisions used in the year	(31.2)	(0.9)	(5.7)	(37.8)
Provisions reversed in the year	(14.2)	(4.5)	(0.4)	(19.2)
At 31 May 2014	51.7	2.9	14.0	68.5
Exchange rate adjustment to year-end rate	3.0	–	0.8	3.8
Provisions in the year	53.4	0.8	2.5	56.7
Provisions used in the year	(32.1)	(0.8)	(5.5)	(38.4)
Provisions reversed in the year	(17.2)	–	(3.2)	(20.4)
At 31 May 2015	**58.8**	**2.9**	**8.6**	**70.2**
Falls due 1-5 year	34.2	2.3	8.3	44.8
Falls due after 5 years	–	–	–	–
Non-current provisions	34.2	2.3	8.3	44.8
Falls due within one year	24.6	0.6	0.3	25.4
At 31 May 2015	**58.8**	**2.9**	**8.6**	**70.2**

3.8 Deferred income

Deferred income classified as non-current liabilities constitute revenue related to the license agreement with Harman. This includes deferred revenue from the Aluminum production agreement and future license income.

SECTION 4

Capital Structure and Financing Costs

This section contains notes relating to the capital structure and financial items of the Bang & Olufsen Group.

4.1 Mortgage loans and loans from banks

Accounting policies

Fixed interest loans, such as mortgage loans or bank loans, are recognised at the date of the loan at the received proceeds less transaction costs. In subsequent periods, the loans are measured at amortised cost price. This means, that the difference between the proceeds from the raising of the loan and the amount, that must be repaid, is recognised in the income statement during the term of the loan as a financial cost using the effective interest method.

The fair value is calculated as the present value of the expected future instalments and interest payments.

Other financial liabilities comprise overdraft facilities etc. and are measured at amortised cost price.

4.1.1 Mortgage loans

	Falls due within 1 year	Falls due 1-5 years	Falls due after 5 years	Falls due after 1 year, total
Fixed rate loans, interest rate 4.1%	2.1	9.4	17.4	26.8
Floating rate loans, interest rate level 0.5-1.0%	6.3	25.4	138.9	164.3
Book value 31 May 2015	**8.4**	**34.8**	**156.3**	**191.1**
Fixed rate loans, interest rate 4.1%	2.0	9.1	18.3	27.3
Floating rate loans, interest rate level 0.5-1.0%	6.2	25.2	145.3	170.5
Book value 31 May 2014	8.2	34.3	163.5	197.8

The fair value of the Group's mortgage loans amounts to DKK 199.9 million (2013/14; DKK 207.4 million). All loans are in DKK.

4.1.2 Loans from banks

The Group has a current draw of DKK 210.0 million (2013/14; DKK 220.0 million) on a committed facility with Nordea. This is also the fair value. As a consequence of the Automotive transaction the company was obliged in accordance with its loan covenants to redeem its bank facilities.

4.2 Financial items

Accounting policies

Financial items include interest income and cost, realised and unrealised capital gains and losses on securities, liabilities, and transactions in foreign currency as well as charges and refunds under the instalment payment tax scheme.

	2014/15	2013/14
Interest income from banks	0.8	0.2
Exchange rate gains, net	19.5	–
Other financial income	4.5	5.4
Financial income	24.8	5.6
Interest costs on bank loans etc	(9.6)	(8.4)
Interest costs on mortgage loans	(7.2)	(10.0)
Exchange rate losses, net	–	(4.6)
Other financial costs	(14.1)	(11.5)
Financial costs	(30.9)	(34.5)

All financial income and costs are related to financial assets and liabilities, which are not measured at fair value in the income statement.

4.3 Financial instruments

Accounting policies

Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; or
- derivative instruments designated as hedges.

The classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition.

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument or secures other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset.

Financial assets, or a portion of a financial asset, are derecognised when, and only when, the entity loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). Such control is lost if the entity realises the right to benefits specified in the contract, the rights expire, or the entity surrenders those rights.

Financial assets at fair value through profit or loss

Financial instruments are classified under this category if held for trading, or if designated at fair value through profit or loss at inception. A financial instrument is classified as held-for-trading if acquired or incurred principally for the purpose of selling it in the short term. Derivatives are also classified as held-for-trading unless they are designated as hedges. Financial instruments in this category are classified as current assets and liabilities. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Realised and unrealised gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the statement of comprehensive income during the period in which they arise. Financial derivative instruments on the statement of financial position are classified in this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months from year-end, which are classified as non-current assets. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost, less impairments, using the effective interest rate method. Loans and receivables comprise the other non-current financial assets, trade and other financial receivables, amounts due by Group companies, cash restricted for use and cash and cash equivalents.

Financial liabilities

Financial liabilities are classified into the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification is dependent on the purpose for which the financial liabilities were acquired or incurred. Management determines the classification of its financial liabilities at the time of initial recognition.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities at amortised cost

This category of financial liabilities comprises preference shares (liability component), borrowings, trade and other financial payables and amounts due to Group companies. These financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Accounting for derivative financial instruments and hedging activities

The Group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast that is the subject of the hedge must be highly probable.

The Group designates certain derivatives as one of the following on the date the derivative contract is entered into:

- a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment (fair value hedge); or

- a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income as financing costs/income, along with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised in the statement of comprehensive income over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The ineffective portion is recognised immediately in the statement of comprehensive income within financing costs. Where the forecast transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial cost or other carrying amount of the asset or liability. Otherwise, amounts deferred in equity are transferred to the statement of comprehensive income and classified as gains or losses in the same financial years during which the hedged firm commitment or forecast transaction affects the statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the statement of comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserves in shareholders' equity are shown under non-distributable reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within financing costs.

Fair value estimation

The fair value of publicly traded derivatives is based on quoted market prices at year-end. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at year-end.

Financial instruments that are measured at fair value in the statement of financial position are classified into the following levels of the fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly, as prices, or indirectly, derived from prices (level 2); and
- inputs for the assets or liabilities that are not based on observable market data, unobservable inputs (level 3).

Quoted market prices or dealer quotes for the specific or similar instruments are used for non-current debt. The fair values of non-current financial assets and deferred-payables for disclosure purposes are estimated by discounting the future contractual cash flows at the interest rates available to the Group at year-end. Other techniques, such as options pricing models and estimated discounted value of future cash flows, are used to determine fair value of the remaining financial instruments.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group makes assumptions that are based on market conditions existing at each year-end.

The carrying values of the following financial assets and financial liabilities approximate their fair values:

- trade and other financial receivables;
- cash and cash equivalents;
- other non-current financial receivables;
- amounts due to Group companies;
- amounts due by Group companies;
- trade and other financial payables;
- current borrowings; and
- non-current borrowings.

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)

Categories of financial assets and liabilities

Carrying amount of financial instruments by measurement category under IAS 39

	2014/15		2013/14	
(DKK million)	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Other financial receivables	123.3	123.3	44.2	44.2
Trade receivables	456.6	456.6	537.4	537.4
Receivables from associates	0.0	0.0	1.9	1.9
Other receivables	71.5	71.5	65.8	65.8
Loans receivable and other receivables	**651.4**	**651.4**	**649.3**	**649.3**
Mortgage loans	199.5	199.9	206.0	207.4
Loans from banks	210.0	210.0	220.0	220.0
Overdraft facilities	0.0	0.0	68.5	68.5
Trade payables	443.1	443.1	434.0	434.0
Other liabilities	309.1	309.1	215.8	215.8
Financial liabilities valued at amortised cost	**1,161.7**	**1,162.1**	**1,144.3**	**1,145.7**
Derivative financial instruments relating to hedging of forecasted future transactions included in Other receivables	(4.5)	(4.5)	0.0	0.0
Financial liabilities held for trading	**(4.5)**	**(4.5)**	**0.0**	**0.0**

For financial assets and liabilities, the fair value is approximately equal to the carrying amount.

Foreign exchange contracts are measured at fair value in the balance sheet. The fair value is based on observable market data and is part of level 2 in the fair value hierarchy and in the category financial assets and liabilities used as hedging instruments. The fair value is negative DKK 4.5 million (2013/14; DKK 0.0 million).

Foreign exchange rate risk

In 2014/15 90 per cent of the Group's turnover was in foreign currency (2013/14; 91 per cent). Since part of the Group's purchasing policy is to match purchasing and sales currencies to the greatest possible extent, the figure does not express the Group's foreign exchange rate risk.

The Group has significant net in-flows in EUR, GBP and CHF, and the most significant exposure is presently related to these. The most significant exposure on the outflow is USD and CZK. The company thus only has a limited natural hedging of the currency risk.

The Group's foreign exchange rate risks are managed centrally by the parent company's finance department based on a foreign exchange rate policy approved by the Board of Directors, under which up to 75 per cent of the expected net cash flows in selected currencies are covered. Forward contracts are continually used for this hedging. The forward contracts are classified as hedging and fulfil the accounting requirements for hedging of future cash flow. Forward contracts are used for commercial transactions only, and hedging is made for a horizon of up to 18 months.

Besides the foreign exchange rate risk relating to current transactions, the Group's equity is affected by foreign exchange rate risks relating to the translation of the Group's foreign subsidiaries from local currencies to DKK.

Foreign exchange contracts

As at 31 May 2015, the Group has entered into foreign exchange forward contracts at a repurchase value of net DKK 434.3 million (2013/14; DKK 9.6 million), with a fair value of negative DKK 4.5 million (2013/14; DKK 0 million).

Foreign exchange contracts, net sale (purchase)

	31 May 2015		31 May 2014	
(DKK million)	Contractual value	Fair value	Contractual value	Fair value
USD	(339.3)	1.2	(109.1)	
GBP	–	–	–	–
CHF	161.0	(5.5)	108.0	–
CZK	(66.0)	(0.2)	–	–
Other	–	–	10.7	–
Total	**(244.3)**	**(4.5)**	**9.6**	**–**

Sensitivity analysis

Effect on Group EBIT and equity based on 5% change in the selected currencies compared to average annual rates estimated on unhedged basis.

	EBIT		Equity	
(DKK million)	**2014/15**	**2013/14**	**2014/15**	**2013/14**
USD	(9.8)	(12.7)	(7.5)	(9.5)
GBP	8.4	7.6	6.4	5.7
CHF	8.4	8.8	6.4	6.6
Other	–	(0.9)	0.8	0.1
Total	**7.0**	**2.8**	**6.1**	**2.9**

Interest rate risk

The Group interest rate risk relates to interest-bearing assets and debt.

The Group interest-bearing assets mainly consist of liquid funds, which at the end of the financial year totaled DKK 1198.0 million (2013/14; DKK 120.4 million). Liquid funds yield interest in the short-term money market. The interest rate risk is deemed to be insignificant in that a change in the interest rate level of 0.5 percentage points would have impacted the Group's earnings before tax by approx. DKK 0.6 million in 2014/15 (2013/14; DKK 0.5 million).

At the end of the financial year, the Group's interest-bearing debt totaled DKK 409.5 million (2013/14; DKK 494.5 million) corresponding to 11.7 per cent of the balance sheet total (2013/14; 17.1 per cent).

Of the interest-bearing debt DKK 156.3 million falls due after five years (2013/14; DKK 163.5 million). Further information is provided in note 4.1.

Due to the low debt level and the fact that the borrowings are in fixed rate loans or loans with a fixed rate of minimum three years, the Group's interest rate risks are insignificant and are not expected to significantly impact the Group's earnings.

Credit risk

The Group's balance sheet items that are subject to credit risk are primarily trade receivables and bank deposits. The amounts at which these balance sheet items are recognized correspond to the maximum credit risk.

At the end of the financial year, the Group sold its products through 714 dealers worldwide. The Group is, therefore, exposed to a risk of losses on trade receivables.

The individual dealers, including their geographical location, are subject to ongoing evaluation. When deemed necessary, the Group employs bank guarantees or debtor insurance against outstanding debts, and in some situations other forms of securities are attained, e.g. in the form of security in inventories or other assets.

In the 2014/15 financial year, DKK 36.2 million was expensed as losses on trade receivables (2013/14; DKK 2.2 million).

Liquid funds are placed with financial institutions with high credit ratings. Derivatives, including foreign exchange forward contracts, are entered into with such institutions only. Therefore, it is deemed that the credit risk relating to liquid funds is of no significance to Bang & Olufsen's annual report.

Liquidity risk

The financial reserve is continually assessed and managed by the parent company's finance department. It is ensured that there at any given time, is sufficient, flexible and unused credit facilities available provided by major, reputable financial institutions. On the basis of the Group's financial reserve arrangements, and the expectations to the Groups future cash flows, management believes that there are sufficient capital resources.

Contractual maturity analysis for financial liabilities

(DKK million)	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
2014/15				
Long-term bank loans		60.3	202.3	262.6
Short-term bank loans	218.4	–	–	218.4
Trade payables	443.1	–	–	443.1
Total non-derivative financial liabilities	661.5	60.3	202.3	924.1
Total financial liabilities	**661.5**	**60.3**	**202.3**	**924.1**

(DKK million)	Less than one year	Between one and five years	More than five years	Total
2013/14				
Long-term bank loans	–	59.9	218.3	278.2
Short-term bank loans	297.0	–	–	297.0
Trade payables	434.0	–	–	434.0
Total non-derivative financial liabilities	731.0	59.9	218.3	1,009.2
Total financial liabilities	**731.0**	**59.9**	**218.3**	**1,009.2**

Specification of net interest-bearing debt

(DKK million)	2014/15	2013/14
Cash and cash equivalents	1,198.0	120.4
Bank loans, non-current liabilities	(191.1)	(197.8)
Bank loans, current liabilities	(218.4)	(297.0)
Total	**788.5**	**(374.4)**

Defaults or breaches on loans

No loan agreements have been defaulted or breached in 2014/15 or 2013/14.

4.4 Capital structure

Based on the company's result and to have sufficient funds to support the strategic initiatives, the Board of Directors proposes to the General Meeting that no dividend be paid out for the 2014/15 financial year. It is the intention of the Board of Directors to resume dividend payments as soon as the financial results justify it.

Bang & Olufsen operates in an industry with very frequent and significant changes in technology, and therefore, the Group will from time to time be faced with small or medium-sized investment opportunities within new business areas and new fields of technology. The product distribution largely takes place through partner-owned retail shops. But in certain markets it might from time to time be necessary for the Group to acquire established retail networks or open new stores. For these reasons and to ensure adequate reserves to implement the second phase of the "Leaner, Faster, Stronger" strategy where the main focus will be on creating profitable growth, and to manage the considerable seasonal variations in the company's income, Bang & Olufsen must maintain an adequate capital reserve.

4.5 Share capital

Accounting policies

Dividend

Dividend is recognised as a liability at the time of approval by the Annual General Meeting.

Own shares

Acquisition and sales prices for own shares and dividend received on these shares are recognised directly in equity under retained earnings.

Translation reserve

The translation reserve for exchange rate differences in the consolidated financial statements comprises exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into Bang & Olufsen a/s' presentation currency.

On disposal of net investments the exchange rate differences on the individual investment are recognised in the profit and loss account. The reserve is a distributable reserve.

Reserve for cash flow hedges

Reserve for cash flow hedges comprises accumulated changes in fair value of derivative financial instruments, which meets the conditions for hedging of future cash flows, where the hedged position has not yet been realised.

The changes in fair value are transferred to the profit and loss account, when the hedged positions are realised.

	Issued shares			
	Number		Nominal value (DKK mio)	
(DKK million)	**2014/15**	**2013/14**	**2014/15**	**2013/14**
1 June	39,270,435	39,270,435	392.7	392.7
Capital increase	3,927,043	–	39.3	–
31 May	**43,197,478**	**39,270,435**	**432.0**	**392.7**

Bang & Olufsen a/s carried out a capital increase through an accelerated book-building process in June 2014 (refer to company announcements 14.02, 14.03 and 14.05 of 19 June, 20 June and 25 June respectively). The capital increase represents 3,927,043 share of a nominal value of DKK 10 each and was subscribed for at a price per share of DKK 66. Bang & Olufsen received net proceeds of DKK 250 million and will use these to accelerate the execution of the Group's growth plan.

Transaction costs of DKK 10.9 million have been recognised directly in equity in relation to the capital increase. The costs are specified in note 4.6.

The share capital consists of 43,197,478 shares with a nominal value of 10 DKK each. Each share gives one vote. No shares have special rights. There are no limitations to transferability and no voting restrictions.

(DKK million)	**2014/15**	**2013/14**	**2012/13**	**2011/12**	**2010/11**
Specification of movements in the share capital:					
Share capital	392.7	392.7	362.4	362.4	362.4
Capital increase	39.3	–	30.3	–	–
Share capital	432.0	392.7	392.7	362.4	362.4

Own shares

	Number		Nominal value (DKKm)		% of share capital	
(DKK million)	**2014/15**	**2013/14**	**2014/15**	**2013/14**	**2014/15**	**2013/14**
1 June	77,369	102,021	0.8	1.0	0.2	0.3
Used in connection with employee share option programmes	(54,370)	(24,652)	(0.5)	(0.2)	(0.1)	(0.1)
31 May	**22,999**	**77,369**	**0.2**	**0.8**	**0.1**	**0.2**

All own shares are owned by Bang & Olufsen a/s.

4.6 Costs relating to capital increase

The following costs have been recognised directly in equity in relation to the capital increase carried out through an accelerated book building process in June 2014 as described in note 4.5.

There were no corresponding costs in 2013/14.

(DKK million)	**2014/15**
Legal fees	1.6
Consultancy fees	9.0
Issuance fees	0.3
Total	**10.9**

4.7 Share-based payment and matching shares

Accounting policies

Share-based incentive programmes

Share-based incentive programmes, in which Executive Management and select other key employees are given the right to buy shares in the parent company (equity-settled programmes), are measured at the fair value of the equity instruments at grant date and are recognised in the income statement as part of staff costs during the period where the employees become entitled to buy the shares. The other side of the entry is recognised directly in equity.

The fair value of the equity instruments is calculated on the basis of the Monte Carlo simulation model based on the assumptions listed below.

Share options have not been granted in the financial year 2014/15.

Matching shares

The Board of Directors in 2013/14 decided to implement a matching share program (MSP) to replace the stock option programs previously used as a variable component in compensation offered to key employees.

The participating employees are offered the opportunity to acquire shares in Bang & Olufsen a/s at their own cost, which after three years of ownership will provide the right to receive 1-4 matching shares per investment share depending on the number of investment shares acquired and the performance of the Bang & Olufsen Group.

The MSP should be accounted for on an accruals basis over the three-year vesting period, as it is a condition that the employees should be employed until vesting.

The accounting value is the value of the maximum number of matching shares to be granted times the probability of the shares vesting. This probability is adjusted every year until vesting.

Share-based payment

The Bang & Olufsen Group's share option programmes extend to Executive Management and a number of key employees in the Group. As at 31 May 2015, the total pool of options amount to 2,127,790 options, which can be exercised in the period 2015-2016. Vesting of the share options is dependent on the recipient of the option being employed during the vesting period. For some of the programs there are certain demands regarding development in share price and other performance measures.

The share options can only be settled with shares. To a limited extent, Bang & Olufsen a/s has purchased own shares to cover the obligation for the outstanding options. The shares are recognised directly in the equity. The holding of own shares totals 26,999 shares as at 31 May 2015 (77,639 shares as at 31 May 2014).

	2014/15		**2013/14**	
	Number of options	**Avg. exercise price per option (DKK)**	**Number of options**	**Avg. exercise price per option (DKK)**
Outstanding at 1 June	3,037,285	77	2,882,254	82
Granted	271,104	0	1,022,962	81
Exercised	(134,411)	48	(24,652)	47
Expired	(1,023,731)	78	(562,490)	121
Forfeited	(22,457)	71	(280,789)	63
Outstanding 31 May	**2,127,790**	**58**	**3,037,285**	**77**

Further information about the outstanding stock options:

	2014/15			2013/14		
	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)
Outstanding programme 2008/09	–	–	–	119,010	103	2
Outstanding programme 2009/10	58,339	58	2	72,446	58	14
Outstanding programme 2010/11	172,364	47	14	244,842	47	26
Outstanding programme 2010/11	–	–	–	416,667	77	3
Outstanding programme 2010/11	416,667	86	3	416,667	86	15
Outstanding programme 2011/12	–	–	–	535,880	67	3
Outstanding programme 2012/13	261,911	81	3	275,972	81	15
Outstanding programme 2013/14	665,000	60	15	665,000	60	27
Outstanding programme 2013/14	282,405	55	15	290,801	55	27
Matching shares 2014/15	271,104	–	29			
Outstanding 31 May	**2,127,790**	**–**		**3,037,285**	**69**	

The value of the share-based payment expresses the group income statement effect of allocated share options. 134,411 share options have been exercised in the year with an average exercise price of DKK 48.

The share option agreements entitle Bang & Olufsen to demand cash settlement of the share options. 84,041 share options were settled with cash settlement and total payment amounted to DKK 0.9 million.

The remaining options have not been, and may never be exercised.

	Options granted in 2013/14
Weighted average fair value (DKK per option)	15
The expense recognition according to the Monte Carlo option pricing formula has been based on the following assumptions:	
Weighted average share price (DKK per option)	55
Expected volatility, first grant	40.0%
Risk-free interest rate, first grant	0.41%

In 2013/14 an average dividend addition for the Bang & Olufsen a/s share of 0.00% has been used in the calculation.

The expected maturity is fixed to be the end of the vesting period.

The volatility is based on one year's historical data and five years' historical data respectively.

Matching shares

As stated in company announcement 14.11 from 15 September 2014 the Board of Directors has implemented a matching share programme (MSP) to replace the stock option programmes previously used as a variable component in compensation offered to Executive Management and selected other key employees.

The participating employees are offered the opportunity to acquire shares in Bang & Olufsen a/s at their own cost, which after three years of ownership will provide the right to receive 1-4 matching shares per investment share depending on the number of investment shares acquired and the performance of the Bang & Olufsen Group.

The fair value of Matching shares is 46 DKK per option based on the share price at the time of grant.

Staff cost recognized in the income statement in relation to share-based payments were DKK 4.6 million of which DKK 0.8 million relates to matching shares (2013/14; DKK 4.2 million).

SECTION 5

Other Notes

This section contains other statutory notes and notes of secondary importance for understanding the financial performance of the Bang & Olufsen Group.

5.1 Non-cash items

Accounting policies

Cash flow statement

The presentation of the cash flow statement follows the indirect method, based on earnings for the year.

The cash flow statement shows the cash flows for the year, the year's change in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities

Cash flow from operating activities are stated as earnings for the year adjusted for non-cash income statement items and changes to working capital. The working capital is made up of current assets less current liabilities, excluding items, which are recognised as cash and cash equivalents.

Cash flow from investing activities

Cash flow from investing activities comprise the acquisition and sale of intangible, tangible and financial non-current assets and investment property.

Free cash flow

Cash produced from operations less the costs of expanding the asset base.

Cash flow from financing activities

Cash flow from financing activities comprise borrowings and instalments on non-current liabilities, dividends paid and proceeds from increases in the share capital as well as sales and repurchase of own shares.

Cash and cash equivalents

Cash and cash equivalents comprise cash less overdraft facilities, which forms part of the Group's ongoing cash flow management. Cash flows in foreign currency, including cash flows in foreign subsidiaries, are translated at average monthly exchange rates, which do not deviate materially from the exchange rates prevailing on the date of payment.

(DKK million)	**2014/15**	**2013/14**
Change in other liabilities	7.0	(29.0)
Financial income	(24.8)	(5.6)
Financial costs	30.9	34.5
Result of investments in associates after tax	(10.5)	(3.2)
Gain/loss on sale of non-current assets	1.8	(11.7)
Gain/loss on sale of business	(643.0)	–
Tax on earnings for the year	8.7	5.8
Other adjustments	(32.4)	(4.8)
Total adjustments	**(662.3)**	**(13.9)**

5.2 Discontinued operations

Accounting policies

Discontinued operations represent a separate major line of business disposed of or in preparation for sale. The results of discontinued operations are presented separately in the income statement and comparative figures are restated. Assets and related liabilities from discontinued operations are presented as separate items in the balance sheet.

Individual assets or groups of assets that are to be disposed of collectively are classified as assets held for sale, when the activities to carry out such a sale have been initiated and the activities are expected to be disposed of within 12 months. Liabilities of a disposal group that are directly related to assets held for sale are presented correspondingly.

Assets and liabilities from discontinued operations and assets held for sale except financial assets, etc. are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

Discontinued operations includes the former business area Automotive sold at end of 2014/15 and ICEpower.

(DKK million)	**2014/15**	**2013/14**
Revenue	647.1	714.5
Expenses	(421.7)	(451.4)
Earnings before tax	**225.4**	**263.1**
Tax	(53.0)	(64.5)
Earnings for the year discontinued operations	**172.4**	**198.6**
Gains/losses on sale of assets and businesses	643.0	–
Tax	(151.1)	–
Gains/losses on sale of assets and businesses after tax	**491.9**	**–**
Total earnings from discontinued operations	**664.3**	**198.6**
Earnings per share of discontinued operations	15.5	5.1
Diluted earnings per share of discontinued operations	15.5	5.1
Cash flow from operating activities	283.3	273.2
Cash flow used for investing activities	1,063.2	(102.6)
Cash flow from financing activities	–	–
Net cash flow from discontinued operations	**1,346.5**	**170.6**
Balance sheet items comprise*:		
Development projects	34.4	252.6
Plant & machinery	0.2	44.4
Other equipment and assets under construction	1.1	2.5
Inventories	9.1	56.2
Trade receivables	18.9	87.9
Other receivables	12.0	19.5
Prepayments	1.8	28.2
Cash	0.1	0.2
Assets held for sale	**77.6**	**491.5**
Trade payables	8.4	36.2
Provisions	1.8	0.3
Corporation tax payable	3.3	6.5
Other liabilities	2.8	15.1
Liabilities associated with assets held for sale	**16.3**	**58.1**

* *Balance sheet items cannot be reconciled to the consolidated balance sheet individually.*

5.3 Business combinations

Accounting policies

Newly acquired or newly established companies are recognised in the consolidated financial statements as from the date of acquisition or the date of establishment, respectively. The acquisition date is the date, where control of the company is actually obtained. Companies sold or liquidated are included in the profit and loss account until the date of sale or liquidation. The date of sale is the date, where control of the company is actually transferred to a third-party. When acquiring new companies, where the Group obtains a controlling influence in the acquired company, the acquisition method is applied, by which the newly acquired companies' identifiable assets, the liabilities and the contingent liabilities are measured at fair value at the acquisition date.

The consideration paid for a company is the fair value of the consideration paid for the acquired company. Acquisition-related costs are recognised in profit or loss in the periods in which the costs are incurred.

Positive differences (goodwill) between, on the one hand, the consideration paid for the acquired company, the value of minority interests in the acquired company and the acquisition-date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities are recognised as an asset under intangible assets, and are tested for impairment at least once a year. If the carrying amount of the asset exceeds the recoverable amount, the carrying amount of the asset is reduced to the lower recoverable amount.

No business combinations took place in 2014/15.

Richcom

As of 1 June 2013 Bang & Olufsen acquired 20 shops from the previous master dealer Richcom in China (including Beijing and Shanghai).

(DKK million)	**2013/14**
The fair value of acquired assets and liabilities is as follows:	
Acquired rights	10.9
Intangible assets	**10.9**
Other equipment	2.4
Leasehold improvements	1.7
Tangible assets in course of construction and prepayments for tangible assets	0.9
Tangible assets	**5.0**
Total non-current assets	**16.0**
Inventories	20.0
Trade receivables	2.8
Cash	1.1
Total current assets	**23.9**
Provisions	3.3
Total non-current liabilities	**3.3**
Other liabilities	7.6
Total current liabilities	**7.6**
Total liabilities	**11.0**
Acquired net assets	**28.8**
The purchase price is as follows:	
Cash	41.0
Total purchase price	**41.0**
Goodwill	**12.2**

5.4 Contingent liabilities and other financial commitments

Accounting policies

A sale and leaseback transaction involves the sale of an asset and leaseback of the same asset. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. When the lease is deemed to be an operating lease and the sale transaction is established at fair value, any gain or loss on the sales transaction is recognized in profit/loss immediately. The leaseback is recognized as other operating leases, cf. accounting policies for operating leases.

The Group has entered into a number of operating leases and rental agreements regarding plant and machinery, shops and other property. There is a big diversity in the length of the agreements. The longest agreement has a term term of 15 years.

All agreements contain conditions regarding renewal. The Group is entitled to determine, whether or not the agreements are renewed. None of the agreements impose restrictions in the Group's rights of disposal.

(DKK million)	**2014/15**	**2013/14**
Leasing commitments:		
Plant and machinery etc.	29.1	30.2
Shops	222.0	201.3
Office and factory property	191.7	180.0
Total	**442.8**	**411.5**
Maturity:		
Due within 1 year	111.9	111.6
Due 1 – 5 years	207.3	207.2
Due after 5 years	123.6	92.7
Total	**442.8**	**411.5**
Rental and lease payments, net for the year	148.1	126.0
Minimum rental and lease payments	148.1	126.0

No contingent rental or lease payments have been recognised in the income statement in 2014/15 or 2013/14.

In connection with the establishment of shops in previous financial years, the Group has entered into a number of long-term rental agreements. The agreements include conditions concerning the right to sublease.

The Group has not entered into any non-cancellable lease agreements as at the balance sheet date.

(DKK million)	**2014/15**	**2013/14**
Guarantees		
Total guarantees as at 31 May	2.4	3.4

DKK 0 million (2013/14; DKK 1.3 million) relate to associates.

None of the guarantees are expected to result in any losses.

VAT and other taxes

The Danish companies in the Group are jointly registrated and are jointly and severally liable for VAT and other taxes of a total of DKK 24.1 million (2013/14; DKK 17.0 million).

Mortgages and securities

Land and buildings and investment property have been mortgaged in the amount of DKK 265.1 million (2013/14; DKK 265.1 million) as security for DKK 199.5 million of the Group's mortgage and bank debt (2013/14; DKK 206.1).

Other tangible non-current assets relating to the land and buildings and investment property are included in the mortgages. The carrying amount of the Group's mortgaged land and buildings and investment property is DKK 113.1 million (2013/14; DKK 147.3 million). No intangible assets, financial assets or inventories are pledged as security for liabilities.

As security for all receivables and payables with Danske Bank and Nordea a statement had been made to the effect that no shares in the subsidiaries of Bang & Olufsen a/s can be sold or pledged as security without the consent of the banks.

Lawsuits

The companies in the Group are parties to a few pending lawsuits. The management assesses that the outcome of the lawsuits will not materially influence the Group's financial position. In accordance with the exemption clause in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', no further information is given regarding the lawsuits, as further information might harm the Group.

Sale of Automotive

In connection with the transfer of the Automotive assets to a subsidiary of Harman International Industries, Incorporated (''Harman''), the company and certain of its subsidiaries has made customary representations and warranties to Harman. The company is not aware of any material breach of such representations and warranties.

5.5 Related parties

No related parties have a controlling influence in the Bang & Olufsen Group.

The related parties that have significant influence in the Bang & Olufsen Group, are the Board of Directors, Executive Management and other key management personnel in other companies in the Group and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

The related parties in Bang & Olufsen a/s and the Bang & Olufsen Group also comprise the associate John Bjerrum Nielsen A/S, in which Bang & Olufsen a/s has significant influence.

Bang & Olufsen's share in subsidiaries and associates is shown on page 105.

Board of Directors, Board of Management and other key management personnel

Except from what follows from the employment and shareholdings, if any, there have been no transactions with the Board of Directors, Executive Management and other key management personnel. Remuneration and share option programmes are shown in notes 2.2 and 4.7.

Executive Management's terms of notice is in accordance with normal market conditions (up to 24 months).

Associated companies

The transactions with the associates have included the following:

(DKK million)	**2014/15**	**2013/14**
Purchase of raw materials	(27.0)	(27.7)
Rental income	–	2.1

The Group has a net payable with associated companies of DKK 4.7 million (2013/14; DKK 1.9 million, net receivable). The outstanding balances carry interest. Terms of payment on outstanding balances for purchase of goods are current month + 30 days. All receivables fall due within 1 year.

The fair value of the payables are DKK 4.7 million (2013/14; DKK 1.9 million, net receivable). The book value is expected to be a reasonable approximation of the fair value.

There are no securities regarding the outstanding balances. There has been no need for write-down of outstanding balances, and no actual losses have been incurred in 2014/15 and 2013/14.

Other transactions

No other transactions have taken place with related parties.

5.6 Events after the balance sheet date

No significant events have occured after the balance sheet date.

5.7 Approval of the Annual Report for publication

At the Board meeting held on 13 August 2015 the Board of Directors have approved the publication of this Annual Report.

The Annual Report will be presented for adoption at the ordinary Annual General Meeting of Bang & Olufsen a/s on Thursday 10 September 2015.

5.8 Companies in the Bang & Olufsen Group

Company name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
Bang & Olufsen a/s	Struer, DK	DKK	431,974,780		
Bang & Olufsen Operations a/s	Struer, DK	DKK	156,000,000	100%	
Scandinavia					
Bang & Olufsen Danmark a/s	Struer, DK	DKK	3,000,000	100%	
Bang & Olufsen AS	Oslo, N	NOK	3,000,000	100%	
Bang & Olufsen Svenska AB	Stockholm, S	SEK	4,150,000	100%	
Central Europe					
Bang & Olufsen Deutschland G.m.b.H.	München, D	EUR	1,022,584	100%	
Bang & Olufsen AG	Bassersdorf, CH	CHF	200,000	100%	
Bang & Olufsen Ges. m.b.H	Tulln, A	EUR	1,744,148	100%	
United Kingdom/Benelux					
Bang & Olufsen United Kingdom Ltd.	Berkshire, GB	GBP	2,600,000	100%	2
S.A. Bang & Olufsen Belgium N.V.	Dilbeek, B	EUR	942,000	100%	
Bang & Olufsen b.v.	Naarden, NL	EUR	18,000	100%	
Rest of Europe					
Bang & Olufsen France S.A.	Levallois-Perret, F	EUR	3,585,000	100%	1
Bang & Olufsen España S.A.	Madrid, E	EUR	1,803,036	100%	2
Bang & Olufsen Italia S.p.A.	Milano, I	EUR	774,000	100%	
North America					
Bang & Olufsen America Inc.	Deerfield, IL, USA	USD	34,000,000	100%	3
Asia					
Bang & Olufsen Asia Pte Ltd.	Singapore, SG	SGD	2	100%	
Bang & Olufsen Hong-Kong Pty Ltd	Hong Kong, HK	HKD	1,000,000	100%	1
Bang & Olufsen Trading (Shanghai) Ltd	Shanghai, CN	RMB	67,000,000	100%	
Bang & Olufsen Wholesale Pty Ltd*	Armadale, AUS	AUD	6,000,001	100%	3
Middle East					
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100%	
Other					
Bang & Olufsen Expansion a/s	Struer, DK	DKK	7,000,000	100%	
Bang & Olufsen s.r.o	Koprivnice, CZ	CZK	187,800,000	100%	
B&O PLAY a/s	Struer, DK	DKK	7,500,000	100%	
Bang & Olufsen ICEpower a/s	Lyngby Taarbæk, DK	DKK	1,939,750	100%	
Bang & Olufsen OÜ	Tallin, EE	EEK	40,000	100%	
Associates					
John Bjerrum Nielsen A/S	Bramming, DK	DKK	10,000,000	33%	

Dormant companies have not been included

* *Sold as of 27 May 2015*

5.9 Key figure definitions

Gross margin, %

Gross profit/(loss) x 100/Revenue

EBITDAC

Earnings before interest, tax, depreciation, amortisation, impairment losses, capitalisation and result of investments in associates after tax

EBITDA

Earnings before interest, tax, depreciation, amortisation, impairment losses and result of investments in associates after tax

Free cash flow

Sum of cash flow from operating and investing activities

EBITDA-margin, %

EBITDA x 100/Revenue

EBIT-margin, %

Operating profit/(loss) x 100/Revenue

NIBD/EBITDA, %

Sum of mortgage loans, loans from banks, credit facilities and cash x 100/ EBITDA

Return on assets, %

Operating profit/(loss) x 100/Average operational assets

Return on invested capital excl. goodwill, %

EBITA x 100/Average invested capital, excl. goodwill

Return on equity, %

Earnings for the year excl. minority interests x 100/Average equity excl. minority interest

Earnings per share (EPS), DKK

Earnings for the year, excl. minority interests/Average number of shares in circulation

Earnings per share, diluted (EPS-D), DKK

Profit/(loss) for the year, excl. minority interests/Average number of shares in circulation (diluted)

Price/earnings

Quotation/Earnings per share (nom. DKK 10)

(c) Published audited financial statements for the year ended 31 May 2016

The following is the extracted audited consolidated financial statements of B&O for the year ended 31 May 2016, which were prepared in accordance with IFRS as adopted by the European Union. These financial statements were presented in millions of Danish Kroner, being the local currency in Denmark except where otherwise stated. B&O's 2016 financial statements for the year ended 31 May 2016 are available free of charge, in printable format on B&O's website (http://www.bang-olufsen.com/en/investors/company-announcements/annual-reports).

Management's Statement

The Board of Directors and the Executive Management Board have today considered and approved the annual report of Bang & Olufsen a/s for the financial year 1 June 2015 – 31 May 2016.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 May 2016 as well as of their financial performance and their cash flow for the financial year 1 June 2015 – 31 May 2016.

We believe that the management commentary contains a true and fair review of the development and performance of the Group's and the parent company's business activities and financial situation, the earnings for the year and the financial position of the parent company and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the parent company face.

We recommend the annual report for adoption at the Annual General Meeting.

Struer, 11 August 2016

Executive Management Board

Henrik Clausen	Anders Aakær Jensen	Stefan Persson
President & CEO	*Executive Vice President & CFO*	*Executive Vice President & COO*

Board of Directors:

Ole Andersen *Chairman*	Jim Hagemann Snabe *Deputy Chairman*	Jesper Jarlbæk
Majken Schultz	Albert Bensoussan	Mads Nipper
Geoff Martin	Jesper Olesen	Brian Bjørn Mansen

To the shareholders of Bang & Olufsen a/s

Independent auditors' report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Bang & Olufsen a/s for the financial year 1 June 2015 – 31 May 2016, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as for the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 May 2016 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 June 2015 – 31 May 2016 in accordance with International Financial Reporting Standards as adopted by the European Union and Danish disclosure requirements for listed companies.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Copenhagen, 11 August 2016

ERNST & YOUNG
Godkendt Revisionspartnerselskab

Steen Skorstengaard
State Authorised
Public Accountant

Niels-Jørgen Andersen
State Authorised
Public Accountant

CONSOLIDATED INCOME STATEMENT

1 June – 31 May

(DKK million)	*Notes*	**2015/16**	**2014/15**
Revenue	*2.1*	**2,633.4**	**2,356.5**
Production costs	*2.2*	(1,681.5)	(1,776.2)
Gross profit		**951.9**	**580.3**
Development costs	*2.2, 2.3*	(314.8)	(448.5)
Distribution and marketing costs	*2.2*	(740.3)	(861.7)
Administration costs	*2.2, 2.4*	(104.3)	(77.1)
Other operating income		42.0	–
Other operating expenses		(36.8)	–
Operating profit (EBIT)		**(202.2)**	**(807.0)**
Share of result after tax in associated companies		(0.4)	10.5
Financial income	*4.2*	1.6	24.8
Financial expenses	*4.2*	(40.5)	(30.9)
Financial items, net		(38.9)	(6.1)
Earnings before tax (EBT)		**(241.6)**	**(802.7)**
Corporation tax	*2.5*	43.8	195.4
Earnings for the year – continuing operations		(197.8)	(607.3)
Earnings for the year – discontinued operations	*5.2*	(9.9)	664.3
Earnings for the year		**(207.7)**	**57.0**
Earnings per share			
Earnings per share (EPS) DKK		(4.8)	1.3
Diluted earnings per share (EPS-D) DKK		(4.6)	1.3
Earnings per share (EPS) from continuing operations, DKK		(4.8)	(14.2)
Diluted earnings per share (EPS-D) from continuing operations, DKK	*2.6*	(4.6)	(14.2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 June – 31 May

(DKK million)	*Notes*	**2015/16**	**2014/15**
Earnings for the year		**(207.7)**	**57.0**
Items that will be reclassified subsequently to the income statement:			
Exchange rate adjustment of investment in foreign subsidiaries		(3.5)	12.1
Change in fair value of derivative financial instruments used as cash flow hedges		1.9	(8.8)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue		6.3	(8.2)
Transfer to production costs		(0.5)	12.4
Income tax on items that will be reclassified to the income statement:	*2.5*	(1.7)	1.1
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit plans		0.8	(4.2)
Income tax on items that will not be reclassified to the income statement:	*2.5*	(0.2)	0.9
Other comprehensive income for the year, net of tax		**3.1**	**5.3**
Total comprehensive income for the year		**(204.6)**	**62.3**

CONSOLIDATED BALANCE SHEET

At 31 May

(DKK million)	*Notes*	**31/5/16**	**31/5/15**
Goodwill		66.4	70.2
Acquired rights		6.1	8.0
Completed development projects		231.2	312.1
Development projects in progress		151.6	80.3
Intangible assets	*3.1*	**455.2**	**470.6**
Land and buildings		97.8	104.6
Plant and machinery		63.5	68.9
Other equipment		18.9	26.8
Leasehold improvements		21.8	44.9
Tangible assets in course of construction and prepayments for tangible assets		7.7	9.1
Tangible assets	*3.2*	**209.7**	**254.2**
Investment property	*3.3*	**16.5**	**17.2**
Investments in associates		–	5.9
Other financial receivables	*3.4*	30.6	123.3
Financial assets		**30.6**	**129.3**
Deferred tax assets	*2.5*	**209.0**	**187.5**
Total non-current assets		**921.0**	**1,058.8**
Inventories	*3.5*	**498.0**	**533.1**
Trade receivables	*3.5*	430.5	456.6
Other financial receivables	*3.4*	93.1	–
Corporation tax receivable		32.0	33.5
Other receivables		48.9	71.5
Prepayments		17.0	19.9
Total receivables		**621.4**	**581.5**
Cash		**788.5**	**1,198.0**
Assets held for sale	*5.2*	**2.9**	**77.6**
Total current assets		**1,910.8**	**2,390.2**
Total assets		**2,831.8**	**3,449.0**

(DKK million)	*Notes*	**31/5/16**	**31/5/15**
Share capital	*4.5*	432.0	432.0
Translation reserve		21.1	24.6
Reserve for cash flow hedges		2.5	(3.5)
Retained earnings		1,269.3	1,468.3
Total equity		**1,724.9**	**1,921.4**
Pensions	*3.6*	14.8	17.1
Deferred tax	*2.5*	11.5	10.6
Provisions	*3.7*	43.4	44.8
Mortgage loans	*4.1*	181.1	191.1
Other non-current liabilities		1.1	1.6
Deferred income	*3.8*	136.7	148.7
Total non-current liabilities		**388.6**	**414.0**
Mortgage loans	*4.1*	8.5	8.4
Loans from banks	*4.1*	–	210.0
Provisions	*3.7*	24.8	25.4
Trade payables	*3.5*	365.4	443.1
Corporation tax payable		9.3	33.7
Other liabilities		270.5	309.1
Deferred income		39.8	67.7
Other current liabilities		**718.3**	**1,097.4**
Liabilities associated with assets held for sale		**–**	**16.3**
Total liabilities		**1,106.9**	**1,527.6**
Total equity and liabilities		**2,831.8**	**3,449.0**

CONSOLIDATED CASH FLOW STATEMENT

1 June – 31 May

(DKK million)	*Notes*	**2015/16**	**2014/15**
Earnings for the year – continuing operations		(197.8)	(607.3)
Earnings for the year – discontinued operations		(9.9)	664.3
Amortisation, depreciation and impairment losses		248.4	430.8
Adjustments for non-cash items	*5.1*	(9.1)	(662.3)
Change in receivables		64.9	10.6
Change in inventories		30.2	78.5
Change in trade payables etc		(127.7)	155.8
Cash flow from operations		**(0.8)**	**70.3**
Interest received and paid, net		(9.3)	(6.1)
Income tax paid		5.1	(9.2)
Cash flow from operating activities		**(5.0)**	**55.0**
Purchase of intangible non-current assets		(165.8)	(209.2)
Purchase of tangible non-current assets		(46.0)	(82.9)
Sales of tangible non-current assets		1.7	–
Proceeds from sale of associated companies		5.5	12.5
Proceeds from sale of businesses		23.0	1,110.8
Received reimbursements, intangible non-current assets		–	12.5
Change in financial receivables		–	14.0
Cash flow from investing activities		**(181.6)**	**857.7**
Free cash flow		**(186.7)**	**912.7**
Repayment of long-term loans		(219.8)	(6.5)
Proceeds from short-term borrowings		–	(10.0)
Capital increase		–	248.2
Sale of own shares		–	2.6
Settlement of share options		(3.0)	(0.9)
Cash flow from financing activities		**(222.8)**	**233.4**
Change in cash and cash equivalents		**(409.5)**	**1,146.1**
Cash and cash equivalents, 1 June		1,198.0	51.9
Exchange rate adjustment, cash and cash equivalents		–	–
Cash and cash equivalents 31 May		**788.5**	**1,198.0**
Cash and cash equivalents:			
Cash		788.5	1,198.0
Cash and cash equivalents 31 May		**788.5**	**1,198.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Share capital	Translation reserve	Reserve for cash flow hedges	Retained earnings	Total
Equity 31 May 2015	**432.0**	**24.6**	**(3.5)**	**1,468.3**	**1,921.4**
Earnings for the year	–	–	–	(207.7)	(207.7)
Other comprehensive income	–	(3.5)	7.7	0.8	5.0
Other comprehensive income, tax	–	–	(1.7)	(0.2)	(1.9)
Comprehensive income for the year	–	(3.5)	6.0	(207.1)	(204.6)
Grant of share based payment	–	–	–	11.1	11.1
Settlement of share options	–	–	–	(3.0)	(3.0)
Equity 31 May 2016	**432.0**	**21.0**	**2.5**	**1,269.3**	**1,724.9**
Equity 1 June 2014	**392.7**	**12.5**	**0.0**	**1,199.3**	**1,604.4**
Earnings for the year	–	–	–	57.0	57.0
Other comprehensive income	–	12.1	(4.6)	(4.2)	3.3
Other comprehensive income, tax	–	–	1.1	0.9	2.0
Comprehensive income for the year	–	12.1	(3.5)	53.7	62.3
Capital increase	39.3	–	–	219.9	259.2
Costs relating to capital increase	–	–	–	(10.9)	(10.9)
Grant of share options	–	–	–	4.6	4.6
Reversal of dividend	–	–	–	–	–
Sale of own shares	–	–	–	2.6	2.6
Settlement of share options	–	–	–	(0.9)	(0.9)
Equity 31 May 2015	**432.0**	**24.6**	**(3.5)**	**1,468.3**	**1,921.4**

SECTION 1

Basis of reporting

This section introduces Bang & Olufsen's financial accounting policies in general,as well as an overview of management's key accounting estimates and the new IFRS requirements. All group companies follow the same Group accounting policies. A detailed description of accounting policies related to specific reported amounts is presented in each note to the relevant financial items.

1.1 Basis of reporting

Basic principles

The consolidated financial statements of the Bang & Olufsen Group and the financial statements for 2015/16 for Bang & Olufsen a/s have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish requirements for the presentation of financial statements for listed companies (class D entities) cf. the Statutory Order on Adoption of IFRS (the Danish announcement on Adoption of IFRS) issued in accordance with the Danish Financial Statements Act.

The consolidated and the separate financial statements are presented in DKK, which is the presentation currency for the Group and the functional currency for the parent company.

Assets are recognised in the balance sheet when it is probable that future economic benefits resulting from a past event will flow to the Group. Liabilities are recognised in the balance sheet when it is probable that the Group will give up future economic benefits as a consequence of a legal or constructive obligation resulting from a past event. The value of the assets and liabilities should be able to be measured reliably.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention with the exception of derivatives, which are measured at fair value.

Consolidation

The consolidated financial statements comprise the parent company, Bang & Olufsen a/s, and the companies (subsidiaries), which are controlled by the parent company. The parent company is presumed to have control when it directly or indirectly holds more than 50 per cent of the voting rights or in other ways can exercise or is exercising controlling influence. Companies in which the Group directly or indirectly holds between 20 per cent and 50 per cent of the voting rights and has a significant influence but not control are regarded as associates.

The consolidated financial statements have been prepared on the basis of the financial statements of the parent company and its subsidiaries. The consolidated financial statements have been prepared by adding uniform items. The financial statements that are used for the consolidation are prepared in accordance with the Group's accounting principles. In the process of consolidation, intra-group income and expenses, intra-group accounts receivable, and payable and dividend, profits and losses from transactions between the consolidated companies have been eliminated. In the consolidated financial statements the subsidiaries' items are recognised 100 per cent.

Translatlon of foreign currency

On initial recognition, transactions in a currency other than the company's functional currency are translated at the exchange rate prevailing at the transaction date. Receivables, payables and other monetary items in foreign currency that have not been settled at the balance sheet date are translated at the exchange rates prevailing at this date. Currency gains and losses arising between the transaction date and the date of payment or the balance sheet date, respectively, are recognised in the profit and loss account as financial income or financial costs. Tangible and intangible non-current assets, inventories and other non-monetary assets that have been purchased in a foreign currency and that are measured at historical cost prices are translated at the exchange rate prevailing at the transaction date.

When recognising companies that present their financial statements in another functional currency than Danish kroner (DKK) in the consolidated financial statements, profit and loss accounts are translated using average exchange rates for the year. The balance sheet items are translated using the exchange rates prevailing on the balance sheet date. Goodwill is regarded as belonging to the acquired company and is translated using the exchange rates prevailing on the balance sheet date.

Translation differences arising from the translation of the foreign subsidiaries' balance sheet items at the beginning of the year to the exchange rates prevailing at the balance sheet date, and from the translation of the profit and loss accounts from average exchange rates to the balance sheet date exchange rates, are recognised in other comprehensive income. Similarly, translation differences that arise on changes made directly to the foreign company's equity are recognised in other comprehensive income.

Investments in associates

Investments in associates are recognised and measured according to the equity method in the consolidated financial statements, i.e. at the proportional share of the accounting net asset value of the companies, in accordance with the Group's accounting principles with the deduction or addition of proportional intra-group gains and losses and with the addition of a carrying amount of goodwill.

The proportional share of the companies result after tax with the reduction of any impairment losses on goodwill is recognised in the income statement.

Investments in associates with a negative net asset value are measured at DKK 0. Receivables and other non-current financial assets that are regarded as being part of the total investment in the associate are written down by the remaining negative net asset value. Trade receivables and other receivables are written down to the extent they are assessed to be irrecoverable.

A provision to cover the remaining negative net asset value is recognised only to the extent that the Group has a legal or constructive obligation to cover the obligations of the company in question.

New investments in associates are accounted for by using the acquisition method.

Production costs

Production costs comprise wages, consumption of stock and indirect costs, (including salaries, depreciation/amortisation and impairment losses) that are incurred with the purpose of achieving the net turnover for the year.

Distribution and marketing costs

Distribution and marketing costs comprise costs relating to sales and distribution of the Group's products. These include salaries for sales personnel, advertising and exhibition costs, depreciation/amortisation and impairment losses. Costs in subsidiaries, which are responsible exclusively for the sale of the Group's products, are also allocated to distribution and marketing costs.

Administration costs etc.

Administration costs etc. comprise costs for the administrative personnel, management, office costs, depreciation/amortisation and impairment losses.

Other operating income and other operating expenses

Other operating income and other operating expenses comprise income and expenses of a secondary nature relative to the principal activities of the Bang & Olufsen a/s Group.

Adoption of new or amended IFRS

Bang & Olufsen has adopted all new, amended standards, revised accounting standards, and interpretations (IFRIC) as endorsed by the European Union and effective for the financial year 1 June 2015 – 31 May 2016.

Based on an assessment of new or amended and revised accounting standards and interpretations ("IFRS") issued by IASB and IFRS endorsed by the European Union effective on or after 1 January 2015, it has been assessed that the application of these new IFRS has not had a material impact on the consolidated financial statements in 2016, and management does not anticipate any significant impact on future periods from the adoption of these new IFRS.

New or amended the European Union endorsed accounting standards

IASB has issued a number of new standards, amendments to existing standards and bases for conclusions that have not yet come into force, but which will become effective in financial years after 2016/17. New and revised standards are expected to be implemented on the effective date. The following standards are in general expected to change current accounting regulation most significantly:

- IASB has issued IFRS 9 "Financial Instruments", with effective date 1 January 2018. It currently awaits the European Union endorsement. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification of financial assets and measurement of financial instruments and hedging requirements.

- IASB has issued IFRS 15 "Revenue from contracts with customers", with effective date 1 January 2017. It currently awaits the European Union endorsement. IFRS 15 is part of the convergence project with FASB to replace IAS 18. The new standard will establish a single, comprehensive framework for revenue recognition.

- IASB has issued IFRS 16 "Leasing", with effective date 1 January 2019. The change in lease accounting requires capitalisation of the majority of the Group's operational lease contracts.

Management has not made a thorough analysis of the effect of the implementation of IFRS 16 "Leases". Based on the operational lease commitment as of 31 May 2016, Bang & Olufsen has a minimum lease obligation of DKK 312 million, corresponding to 11 per cent of the total balance that will be recognised in the Group's assets with a corresponding impact on liabilities. IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers" are not expected to have any significant impact on recognition and measurement.

All other new or amended standards and interpretations not yet effective are not expected to have any material impact.

1.2 Critical accounting estimates and judgements

When applying the Group's accounting principles, it is necessary that management makes a number of accounting assessments and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing provisions, development projects, trade receivables, inventories and deferred tax assets.

Management bases its estimates and assumptions on historical experience and other relevant factors that are believed to be reasonable under the given circumstances. The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

The critical accounting estimates and judgements are described under the sections to which they relate.

Accounting estimate/judgement	*Note*
Deferred tax assets	*2.5*
Development projects	*3.1*
Inventories	*3.5.1*
Trade receivables	*3.5.2*
Provision for warranty and fairness	*3.7*

SECTION 2

Results for the year

This section contains notes relating to earnings for the year including operating segments, development and staff costs and taxes for the year. A detailed description of the results for the year is given in the Financial Review on page 10.

2.1 Operating segment information

Accounting policies

Revenue recognition

Revenue is recognised in the income statement, when delivery and transfer of the risks of ownership to the customer has taken place, if the revenue can be measured reliably, and payment is expected to be received. Revenue is recognised net of value added tax and discounts related to the sale.

Revenue regarding sales of goods is recognised in the income statement, if the transfer of the risks of ownership to the customer has taken place before the end of the financial year.

Segment information

Segment information has been prepared in accordance with the Group's accounting principles and follows the Group's management structure and the internal management reporting that is used by top operational management to evaluate results and resource allocation.

The Group's reportable segments are:

- Bang & Olufsen
- B&O PLAY

The segments are split based on differences in products. Bang & Olufsen is made of the core business and sold through Bang & Olufsen's B1 stores and through shop-in-shops. B&O PLAY products are sold through the traditional Bang & Olufsen distribution channels and through third party distribution and e-commerce.

The segment's performance measurement is gross profit. Segment income and costs include the items that can be directly attributed to the individual segment.

The segment's asset measurement is a sum consisting of completed development projects, development projects in progress and trade receivables. The internal management reporting does not include segment liabilities.

Trade between the Group's reportable segments is carried out at arm's length conditions.

The Group's geographical areas are:

- Europe
- North America
- BRIC
- Rest of World

BRIC includes Brasil, Russia, India, China, Taiwan, Hong Kong and Korea.

The geographical areas are split on the basis of the location of the customers and assets.

As the Group's domicile is situated in Denmark, disclosure is also made of total non-current assets and net revenue split between Denmark and the Rest of world.

	2015/16			
(DKK million)	**Bang & Olufsen**	**B&O PLAY**	**Unallocated**	**Total**
Revenue, Group	**1,663.2**	**970.2**	**–**	**2,633.4**
Gross profit, Group	**645.5**	**306.4**	**–**	**951.9**
Gross margin – %	**38.8**	**31.6**	**–**	**36.1**
Amortisation, depreciation and impairment losses	(203.0)	(28.3)	–	(231.3)
Other non-allocated capacity costs	–	–	(922.9)	(922.9)
Share of result after tax in associated companies	–	–	(0.4)	(0.4)
Financial income	–	–	1.6	1.6
Financial expenses	–	–	(40.5)	(40.5)
Earnings before tax	**–**	**–**	**(962.2)**	**(241.6)**
Completed development projects	212.8	18.4	–	231.2
Development projects in progress	148.6	3.0	–	151.6
Total segment assets	361.4	21.4	–	382.8
Unallocated assets	–	–	2,449.0	2,449.0
Total assets, Group	**361.4**	**21.4**	**2,449.0**	**2,831.8**
Denmark	876	49	–	925
Rest of world	889	33	–	922
Average number of full-time employees, Group	**1,765**	**82**	**–**	**1,847**

	2014/15			
(DKK million)	**Bang & Olufsen**	**B&O PLAY**	**Unallocated**	**Total**
Revenue, Group	**1,743.0**	**613.5**	**–**	**2,356.5**
Gross profit, Group	**461.4**	**167.1**	**(48.2)**	**580.3**
Gross margin – %	**26.5**	**27.2**	**–**	**24.6**
Amortisation, depreciation and impairment losses	(281.7)	(41.7)	(5.0)	(328.4)
Other non-allocated capacity costs	–	–	(1,058.9)	(1,058.9)
Share of result after tax in associated companies	–	–	10.5	10.5
Financial income	–	–	24.8	24.8
Financial expenses	–	–	(30.9)	(30.9)
Earnings before tax	**–**	**–**	**(1,107.7)**	**(802.7)**
Completed development projects	318.2	24.6	–	342.8
Development projects in progress	79.6	0.7	–	80.3
Total segment assets	397.8	25.3	–	423.1
Unallocated assets	–	–	3,025.9	3,025.9
Total assets, Group	**397.8**	**25.3**	**3,025.9**	**3,449.0**
Denmark	1,043	31	–	1,074
Rest of world	981	15	–	996
Average number of full-time employees, Group	**2,024**	**46**	**–**	**2,070**

* *Unallocated costs include cost for shared functions previously allocated to discontinued operations.*

	Total non-current assets		Total revenue	
(DKK million)	**2015/16**	**2014/15**	**2015/16**	**2014/15**
Geographical information				
Europe	621.2	701.1	1,668.7	1,566.9
North America	4.6	8.7	214.1	200.4
BRIC	57.1	38.1	458.9	337.6
Rest of world	0.8	–	291.7	251.6
Total	**683.7**	**747.9**	**2,633.4**	**2,356.5**
Denmark	570.2	597.5	354.2	312.4
Rest of world	113.5	150.4	2,279.2	2,044.1
Total	**683.7**	**747.9**	**2,633.4**	**2,356.5**

Non-current assets do not include deferred tax assets, pension assets and non-current financial assets.

Bang & Olufsen Group has no transactions with individual customers which make up more than 10 per cent of the Group's revenue.

The Group's total revenue is almost exclusively derived from the sale of goods (98.8 per cent in 2015/16 and 99.9 per cent in 2014/15).

2.2 Staff costs

(DKK million)	**2015/16**	**2014/15**
Wages and salaries etc.	622.6	732.9
Share-based payment	11.1	4.3
Pensions	36.6	45.6
Other social security costs	53.2	41.3
Total	**723.5**	**824.1**
Expensed as follows:		
Production costs	352.5	405.8
Development costs	91.0	118.7
Distribution- and marketing costs	197.4	238.1
Administration costs	82.7	61.5
Total	**723.5**	**824.1**
Average number of full-time employees	**1,847**	**2,070**

(DKK million)	**2015/16**			**2014/15**		
Whereof to:	**Board of Directors**	**Executive Mgt. Board**	**Other key employees**	**Board of Directors**	**Executive Mgt. Board**	**Other key employees**
Wages, salaries and fees	4.2	19.7	8.6	3.7	9.4	14.1
Pensions	–	0.6	0.9	–	0.4	1.6
Bonus	–	0.4	0.9	–	–	2.2
Total	4.2	20.7	10.2	3.7	9.8	17.9
Share-based payment	–	8.7	1.3	–	2.1	1.5
Total remuneration	**4.2**	**29.4**	**11.5**	**3.7**	**11.9**	**19.4**

In 2015/16, there were six members of staff in the group 'Other key employees' (2014/15; eight members).

(DKK million)	**2015/16**	**2014/15**
Specified as follows:		
Remuneration of Executive Management Board:		
Tue Mantoni	23.0	7.3
Anders Aakær Jensen	3.4	2.4
Stefan Persson	3.0	1.5
Henning Bejer Beck	–	0.8
Total	**29.4**	**11.9**

Remuneration to Tue Mantoni includes costs related to severance pay of DKK 15.4 million of which DKK 6.1 is related to share based payment.

The value of the share-based payment expresses the group income statement effect of allocated share options. Please see note 4.7 for further information.

(DKK million)	**2015/16**	**2014/15**
Remuneration of the Board:		
Ole Andersen *(chairman)*	1.2	0.9
Jim Hagemann Snabe *(deputy chairman)*	0.8	0.6
Jesper Jarlbæk	0.4	0.4
Majken Schultz	0.3	0.3
Albert Bensoussan (appointed 10.09.2014)	0.3	0.2
Mads Nipper (appointed 10.09.2014)	0.3	0.2
Jesper Olesen	0.3	0.3
Brian Bjørn Hansen (appointed 10.09.15)	0.2	–
Geoff Martin (appointed 10.09.15)	0.2	–
Per Østergaard Frederiksen (resigned 10.09.15)	0.1	0.3
Knud Olesen (resigned 10.09.2015)	0.1	0.3
André Loesekrug-Pietri (resigned 10.09.2014)	–	0.1
Rolf Eriksen (resigned 10.09.2014)	–	0.1
Total	**4.2**	**3.7**

2.3 Development costs

Accounting policies

Development costs, which do not meet the criteria for capitalisation as defined in note 3.1 are recognised in the income statement as development costs along with amortisation and impairment losses on capitalised development projects.

(DKK million)	**2015/16**	**2014/15**
Incurred development costs before capitalisation	302.1	369.7
Hereof capitalised	(152.0)	(159.2)
Incurred development costs after capitalisation	150.1	210.5
Capitalisation (%)	*50.3*	*43.1*
Total amortisation charges and impairment losses on development projects	164.7	238.0
Total	**314.8**	**448.5**

2.4 Fees to auditors appointed at the Annual General Meeting

(DKK million)	**2015/16**	**2014/15**
Statutory audit	2.3	2.2
Other assurance services	–	0.2
Tax services	1.1	1.1
Other services	2.2	3.0
Total	**5.6**	**6.5**

EY were re-appointed as auditors at the Annual General Meeting on 10 September 2015.

2.5 Taxation

Accounting policies

Tax for the year, which includes the current tax and changes in deferred tax for the year, is recognised in profit or loss with the share that is attributable to the result for the year and in other comprehensive income or directly in equity with the share, which can be attributed to entries made in other comprehensive income or directly in equity, respectively.

Current income tax payable and current income tax receivable is recognised in the balance sheet as the tax calculated on the year's taxable income adjusted for prepaid tax.

When calculating current tax for the year, the tax rates and regulations prevailing at the balance sheet date in the different countries are used.

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the tax base and the carrying amount of assets and liabilities, except for deferred tax on temporary differences that arise either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, and where the temporary difference on initial recognition affects neither accounting profit or loss nor the taxable income.

Deferred tax on temporary differences relating to investments in subsidiaries and associates is recognised, unless the parent company is able to control when the deferred tax is realised, and it is probable that the deferred tax will not be realised as current tax within the foreseeable future.

The deferred tax is calculated based on the planned use of each asset and settlement of each liability, respectively.

Based on the laws that have been enacted or substantively enacted at the balance sheet date, the deferred tax is measured using the tax rates and regulations in the different countries that are expected to prevail when the deferred tax is expected to be realised as current tax. The change in deferred tax due to changes in tax rates or regulations is recognised in profit or loss unless the deferred tax is attributable to transactions that have previously been recognised directly in equity or in other comprehensive income. In the latter case, the change is also recognised directly in equity or in other comprehensive income, respectively.

Deferred tax assets, including the tax value of any tax loss carryforwards, are recognised in the balance sheet at the value of which the asset is expected to be realised either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date, it is assessed if it is probable that sufficient taxable income will exist in the future so that the deferred tax asset can be utilised.

The parent company is jointly taxed with all Danish subsidiaries. The current Danish corporation tax is distributed between the jointly taxed companies in proportion to their taxable income.

Critical accounting estimates and judgements

Deferred tax assets are recognised in the balance sheet at the value at which the asset is expected to be realised either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date, it is assessed if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised. This assessment is based on the details specified in the Strategy section on page 30 in the management review. The deferred tax assets amount to DKK 209 million as at 31 May 2016 (DKK 187.5 million as at 31 May 2015).

(DKK million)	**2015/16**	**2014/15**
Income statement and other comprehensive income		
Tax recognised in income statement		
Corporation tax, continuing operations	(43.8)	(195.4)
Corporation tax, discontinued operations	7.4	204.1
	(36.4)	8.7
Current tax charge/credit	(8.0)	18.1
Adjustment for prior periods, current tax	(6.0)	(6.3)
	(14.0)	11.8
Change in deferred tax	(23.l)	(10.3)
Adjustment of deferred tax prior years	0.8	8.8
Adjustments from change in tax rate	1.6	(2.7)
	(20.7)	(4.2)
Total taxation charge in the income statement	(34.7)	7.6
Tax recognised in:		
Income statement	(36.4)	8.7
Other comprehensive income	1.7	(1.1)
Total	(34.7)	7.6

Tax on other comprehensive income relates to change in fair value of derivative financial instruments used as cash flow hedges, and is recognised in retained earnings.

The taxation charge in the income statement that would arise at the standard rate of Danish corporation tax is reconciled to the actual tax charge as follows:

	2015/16		2014/15	
	%	*DKKm*	*%*	*DKKm*
Tax calculated on earnings before tax	22.0	(53.7)	23.5	16.2
Non-deductible costs and non-taxable income	(0.7)	1.6	0.6	0.4
Deviating tax rates in foreign subsidiaries	2.4	(5.8)	4.7	2.7
Changes in tax rates	(0.7)	1.6	(3.8)	(2.7)
Adjustments to prior periods	2.1	(5.2)	3.6	2.5
Non-capitalised and write-down tax loss carryforwards	(8.0)	19.6	(15.6)	(10.7)
Foreign withholding tax	(0.1)	0.2	0.2	0.2
Non-taxable dividends/profit from subsidiaries and associates	(2.8)	6.9	(0.6)	(0.4)
Other	0.6	(1.6)	0.6	0.5
Annual effective tax rate/taxation charge in income statement	**14.9**	**(36.4)**	**13.2**	**8.7**

Balance sheet

(DKK million)

Deferred tax assets	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 2014	98.7	11.6	9.1	10.3	49.1	1.6	180.4
Changes in tax rates	0.9	0.5	–	0.8	0.5	–	2.7
Recognised in the income statement	(25.9)	(12.5)	(0.1)	6.9	(5.3)	41.3	4.4
Deferred tax assets 31 May 2015	73.7	(0.4)	9.0	18.0	44.3	42.9	187.5
Changes in tax rates	–	–	0.1	–	1.5	–	1.6
Recognised in the income statement	(11.5)	3.8	(0.6)	(2.4)	28.0	2.6	19.9
Deferred tax assets 31 May 2016	**62.2**	**3.4**	**8.5**	**15.6**	**73.8**	**45.5**	**209.0**

Deferred tax assets relate to the subsidiaries in Norway, Sweden, Germany, the UK, Belgium, France, Italy, Spain, the US, Singapore, Hong Kong, China, and the jointly-taxed Danish companies. Deferred tax assets have been calculated based on local tax rates.

In "Other" in deferred tax assets includes a tax asset of DKK 30.0 million from deferred income.

In 2015/16, a deferred tax asset of DKK 32.0 million has been recognised in the jointly-taxed Danish companies based on tax loss carryforwards, which can be indefinitely carried forward. This deferred tax asset has been recognised on the basis of Management's expectations of the Group's long-term earnings up to five years.

In 2015/16, Bang & Olufsen US tax assets of DKK 19.6 million has been non-capitalised and write-down regarding tax losses carried forward. The recognition is based on the expectations to future earnings in Bang & Olufsen US. Unrecognised deferred tax assets amount to DKK 29.8 million. The basis for the unrecnognised deferred tax assets includes tax losses of DKK 164.9 million. The tax losses can be carried forward for a period of 1-20 years.

(DKK million)

Deferred tax liabilities	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax liabilities 1 June 2014	10.3	(0.4)	(0.8)	(1.0)	–	(0.4)	7.7
Recognised in the income statement	2.8	0.2	(0.2)	0.8	(0.8)	0.1	2.9
Deferred tax liabilities 31 May 2015	13.1	(0.2)	(1.0)	(0.2)	(0.8)	(0.3)	10.6
Recognised in the income statement	(1.0)	0.1	1.5	0.2	0.8	(0.8)	0.8
Deferred tax liabilities 31 May 2016	**12.1**	**(0.1)**	**0.5**	**–**	**–**	**(1.1)**	**11.5**

Deferred tax has been provided for based on local tax rates.

Deferred tax on temporary differences relating to investments in subsidiaries and associates has not been recognised, since the parent company is able to control when the deferred tax is realised, and it is assessed to be probable that the deferred tax will not be realised as current tax within the foreseeable future.

2.6 Earnings per share

(DKK million)

2015/16	**Basic**	**Diluted**
Earnings for the year – continuing operations	(197.8)	(197.8)
Earnings for the year	(207.7)	(207.7)
Weighted average number of shares in issue – million	43.2	43.2
Dilution due to share options	–	–
Total weighted average number of ordinary shares in issue – million	43.2	43.2
Earnings per ordinary share – continuing operations	(4.6)	(4.6)
Earnings per ordinary share	(4.8)	(4.8)

2014/15	**Basic**	**Diluted**
Earnings for the year – continuing operations	(607.3)	(607.3)
Earnings for the year	57.0	57.0
Weighted average number of shares in issue – million	42.9	42.9
Dilution due to share options	–	–
Total weighted average number of ordinary shares in issue – million	42.9	42.9
Earnings per ordinary share – continuing operations	(14.2)	(14.2)
Earnings per ordinary share	1.3	1.3

SECTION 3

Operating assets and liabilities

This section contains notes relating to the assets that form the basis for the activities in the Bang & Olufsen Group and the related liabilities.

3.1 Intangible assets

Accounting policies

Asset class	Recognition	Valuation	Amortisation method	Estimated useful life
Goodwill	When recognising goodwill, the goodwill amount is allocated to those of the Group's activities that generate independent cash flows (cash-generating units). The definition of cash-generating units is in accordance with the managerial structure and the internal management accounting and reporting in the Group.	Goodwill is initially recognised and measured as the difference between on the one hand, the cost price of the acquired company, the value of minority interests in the acquired company and the acquisition date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities.	N/A	Indefinite – tested for impairment annually.
Development projects (under construction)	Clearly defined and identifiable projects if probable that they can be marketed as new products in a potential market.	Measured at cost price. This comprises costs, including salaries and depreciation/amortisation that relate directly to the development projects, and which are necessary to complete the project from the time when the development project initially meets the criteria for recognition as an asset. Reimbursements and grants are deducted from the cost price.	N/A	N/A until completed - tested for impairment annually.
Development projects (completed)		Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	2-6 years for completed development projects, or over remaining term of intellectual property right if less.
Acquired rights	Software, key money and patents.	Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	Over the shorter of the estimated useful life and the term of the contract.

Critical accounting estimates and judgements

Development costs are capitalised only after technical and commercial feasibility of the projects have been established. In connection with the capitalisation of development costs, the expected useful life of the product is to be determined. Management has assessed that the amortisation period is usually two to six years. Management also makes assumptions when assessing the possible impairment of development projects. The applied principles are unchanged from the 2014/15 financial year. Development projects amount to DKK 382.8 million as at 31 May 2016 (DKK 392.4 million as at 31 May 2015). The main additions in the 2015/16 financial year are development projects relating to TV platform and speakers.

Impairment

The carrying amount of intangible non-current assets with a definite useful life is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

For development projects in progress and goodwill the recoverable amount is determined at least once a year whether or not there are indications of impairment.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to reduce first any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit, in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount the asset's or the cashgenerating unit's carrying amount is increased to the adjusted recoverable amount, however not exceeding the carrying amount the asset or the cash-generating unit would have had if it had not been impaired. Impairment of goodwill is not reversed.

(DKK million)

	Goodwill	Acquired rights	Completed development projects	Development projects in progress	Total
Cost					
At 31 May 2014	66.2	164.1	1,105.6	317.6	1,653.5
Exchange rate adjustment	4.3	–	–	–	4.3
Additions	2.8	1.1	81.1	124.2	209.2
Reimbursements received	–	–	–	(9.2)	(9.2)
Disposals	(2.1)	–	(167.9)	(1.3)	(171.3)
Transfer to asset held for sale	–	(1.5)	(44.3)	(24.3)	(70.1)
Disposals in the year from sale of business	–	(3.8)	(302.3)	(104.9)	(411.0)
Completed development projects	–	–	221.8	(221.8)	–
At 31 May 2015	**71.2**	**159.9**	**894.0**	**80.3**	**1,205.4**
Exchange rate adjustment to year-end rate	(0.5)	–	–	–	(0.5)
Additions	–	2.9	47.7	104.2	154.8
Disposals	(4.3)	–	(203.4)	–	(207.7)
Completed development projects	–	–	32.9	(32.9)	–
At 31 May 2016	**66.4**	**162.8**	**771.2**	**151.6**	**1,152.0**
Amortisation and Impairment					
At 1 June 2014	(2.7)	(149.6)	(699.4)	–	(851.7)
Exchange rate adjustment	(0.4)	–	–	–	(0.4)
Amortisation	–	(6.4)	(253.2)	–	(259.6)
Impairment losses	–	–	(30.7)	–	(30.7)
Reversed amortisation on disposals	2.1	–	167.9	–	170.0
Reversed amortisation on asset transfed to held for sale	–	1.5	34.2	–	35.7
Reversed amortisation on disposals from sale of business	–	2.6	199.3	–	201.9
At 31 May 2015	(1.0)	(151.9)	(581.9)	–	(734.8)
Exchange rate adjustment	(0.1)	–	3.2	–	3.1
Amortisation	–	(4.8)	(164.7)	–	(169.5)
Reversed amortisation on disposals	1.1	–	203.4	–	204.5
At 31 May 2016	**–**	**(156.7)**	**(540.0)**	**–**	**(696.7)**
Net book value					
At 31 May 2016	**66.4**	**6.1**	**231.2**	**151.6**	**455.2**
At 31 May 2015	70.2	8.0	312.1	80.3	470.6

Impairment losses during the year

Goodwill

The majority of the Group's goodwill (DKK 41.7 million) is related to the acquisition of the Dutch distribution in 2004/05. The goodwill is allocated to the cash-generating unit, which includes the activities in the Netherlands. DKK 20.0 million relate to the take over of 20 stores from the previous master dealer Richcom in China. The goodwill is allocated to the cash-generating unit, which includes the activities in BRIC. The goodwill relates in its entirety to the business Bang & Olufsen segment. No impairment losses have been recognised on cash-generating units which include goodwill in 2015/16 or 2014/15 in the Group.

The assessment of the recoverable amount of the cash-generating units which include goodwill is based on calculations of value in use, which is calculated based on both expected future cash flows according to the company's strategy, specified in the Strategy section in management review on page 30, as well as forecasts for the coming two financial years. The terminal value is determined on the assumption of a growth of 2.0 per cent (2014/15; 2.0 per cent). The growth rate is not expected to exceed the long-term growth rate. A discount rate before tax of 9 per cent is used (6.9 per cent after tax) (2014/15; 9 per cent/6.9 per cent).

Development projects

The assessment of the recoverable amount of the intangible assets excl. goodwill is based on calculations of value in use of the assets. The value in use is calculated based on expected future cash flows from the assets based on the budgets approved by management over the expected lifetime of the assets, and a discount rate before tax of 10 per cent (2014/15; 10.0 per cent).

(DKK million)	**2015/16**	**2014/15**
Amortisation and impairment losses		
Production costs	2.6	4.3
Development costs	165.3	283.8
Distribution- and marketing costs	1.4	2.0
Administration costs	0.2	0.2
Total	**169.5**	**290.3**

No impairment losses has been recognised in 2015/16 (2014/15 DKK 30.7 million).

3.2 Tangible assets

Accounting policies

Tangible non-current assets are measured at cost price with deduction of accumulated depreciation and impairment losses.

The cost price comprises the acquisition price and costs directly related to the acquisition until the time when the asset is ready for use. For self-constructed non-current assets, the cost price comprises direct costs for wages, materials, components and sub-suppliers.

Reimbursements and grants concerning tangible non-current assets are deducted from the cost price.

Interest expenses related to financing of the construction of qualifying tangible non-current assets are recognised in the cost price of the assets if they relate to the period of construction.

The cost price of a tangible non-current asset is divided into individual components that are depreciated separately if the expected useful life differs for the individual components.

For tangible non-current assets held under finance leases, the cost price equals the lower of fair value of the assets and the present value of the future minimum lease payments. The interest rate implicit in the lease or the incremental borrowing rate is used as discount rate when calculating the present value.

Asset class	**Asset type**	**Depreciation policy**
Land and buildings	Land	None
	Buildings	Straight-line over 40 years
	Interior refurbishment/ special installations	Straight-line over 10 years
Plant and machinery	Single purpose production tools	Straight-line over 3-6 years
	Other	Straight-line over 8-10 years
Other equipment	Other equipment	Straight-line over 3-10 years
Leasehold improvements	Leasehold improvements	Straight-line over term of lease, max 10 years
Tangible assets in course of construction	Tangible assets in course of construction	None

Impairment

The carrying amount of tangible non-current assets is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset. The assessment is based on the details specified in the Strategy section in the management review on page 30.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to first reduce any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount, the asset's or the cash-generating unit's carrying amount is increased to the adjusted recoverable amount not exceeding the carrying amount the asset or the cash-generating unit would have had, had it not been impaired.

Impairment losses of DKK 13.6 million have been recognised in relation to tangible assets during 2015/16 (2014/15 DKK 17.4 million).

(DKK million)

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 1 June 2014	381.6	1,250.3	207.7	79.8	29.8	1,949.2
Exchange rate adjustment	0.8	(0.1)	5.5	10.4	0.2	16.8
Additions	6.8	28.4	16.3	19.4	12.0	82.9
Completed assets	1.2	25.0	0.5	0.7	(27.4)	–
Disposals	(3.6)	(20.8)	(13.0)	(11.5)	(0.4)	(49.3)
Transfer asset held for sale	–	(136.6)	(16.2)	(8.9)	(4.0)	(165.7)
Disposals from sale of business	–	(2.1)	(6.3)	(0.9)	(1.1)	(10.4)
At 31 May 2015	386.8	1,144.1	194.5	89.0	9.1	1,823.5
Exchange rate adjustment	(0.1)	–	(2.5)	(4.3)	–	(6.9)
Additions	1.2	23.5	6.8	11.2	7.3	50.0
Completed assets	1.6	5.1	0.6	1.4	(8.7)	–
Disposals	–	(51.2)	(18.0)	(11.7)	–	(80.9)
Transfer asset held for sale	–	–	(2.9)	–	–	(2.9)
At 31 May 2016	**389.5**	**1,121.5**	**178.5**	**85.6**	**7.7**	**1,782.8**
Amortisation and impairment						
At 1 June 2014	(266.9)	(1,126.8)	(180.9)	(40.3)	–	(1,614.9)
Exchange rate adjustment	(0.3)	–	(3.1)	(4.1)	–	(7.5)
Depreciation	(10.8)	(60.2)	(11.3)	(18.0)	–	(100.3)
Impairment losses	(4.4)	(12.2)	(0.8)	–	–	(17.4)
Reversed depreciation on disposals	0.2	21.8	12.2	9.8	–	44.0
Reversed amortisation on disposals from sale of business	–	100.4	11.0	7.6	–	119.0
Reversed depreciation on assets transfered to held for sale	–	1.8	5.2	0.9	–	7.9
At 31 May 2015	(282.2)	(1,075.2)	(167.7)	(44.1)	–	(1,569.2)
Exchange rate adjustment	0.1	(3.5)	1.0	1.7	–	(0.7)
Depreciation	(9.6)	(27.3)	(8.6)	(14.5)	–	(60.0)
Impairment losses	–	–	–	(13.6)	–	(13.6)
Reversed depreciation on disposals	–	48.0	15.7	6.7	–	70.4
At 31 May 2016	**(291.7)**	**(1,058.0)**	**(159.6)**	**(63.8)**	**–**	**(1,573.1)**
Net book value						
At 31 May 2016	**97.8**	**63.5**	**18.9**	**21.8**	**7.7**	**209.7**
At 31 May 2015	104.6	68.9	26.8	44.9	9.1	254.3

There are no contractual obligations regarding purchase of tangible assets.

(DKK million)	**2015/16**	**2014/15**
Depreciation and impairment losses		
Production costs	47.3	84.5
Development costs	4.7	7.6
Distribution- and marketing costs	21.3	25.0
Administration costs etc.	0.3	0.6
Total	**73.6**	**117.7**

Impairment losses of DKK 13.6 million have been recognised in relation to tangible assets during 2015/16 (2014/15 DKK 17.4 million).

3.3 Investment property

Accounting policies

Investment property is property held to earn rental income or for capital appreciation.

Investment property is measured at cost price with deduction of accumulated depreciation and impairment losses. Investment property is depreciated on a straight-line basis over 40 years.

No impairment losses have been recognised in relation to investment property during 2015/16 (2014/15 DKK 20.2 million).

(DKK million)	
Cost	
At 1 June 2014	79.9
At 31 May 2015	79.9
Disposals in the year	(1.3)
At 31 May 2016	**78.6**

(DKK million)	
Depreciation and impairment	
At 1 June 2014	(41.2)
Depreciation during the year	(1.3)
Impairment losses during the year	(20.2)
At 31 May 2015	(62.8)
Depreciation during the year	(0.5)
Reversed depreciation on disposals	1.1
At 31 May 2016	**(62.1)**
Net book value	
At 31 May 2016	**16.5**
At 31 May 2015	17.2

Investment property consists of property that is partly used by Medicom a/s Innovation Partner. Net book value represents the fair value of the investment property.

External rental income of DKK 2.4 million has been received from the investment property in 2015/16 (2014/15; DKK 2.5 million), and directly attributed operating expenses were DKK 1.0 million (2014/15; DKK 1.5 million).

The properties are leased on operating leases with a remaining duration of 34 months. According to the existing operating leases, a rental income of DKK 2.5 million will be received in 2016/17.

3.4 Other financial receivables

(DKK million)	
Cost	
At 1 June 2014	54.5
Exchange rate adjustment	3.2
Changes in the year	89.0
At 31 May 2015	146.7
Exchange rate adjustment	(0.4)
Changes in the year	(16.9)
At 31 May 2016	**129.5**
Impairment	
At 1 June 2014	(10.3)
Exchange rate adjustment	(1.1)
Impairment reversals/losses	(12.0)
At 31 May 2015	(23.4)
Exchange rate adjustment	0.2
Impairment reversals/losses	17.2
At 31 May 2016	**(6.1)**
Net book value	
At 31 May 2016	**123.4**
At 31 May 2015	123.3

The fair value of other financial receivables in the Group amounts to DKK 123.4 million (DKK 123.3 million in 2014/15) of which DKK 30.6 million in non-current. The fair value is calculated as the present value of the future expected cash flows from the receivables.

3.5 Working capital

Accounting policies

Inventories

Inventories are measured at the lower of cost price according to the FIFO principle and net realisable value. The cost price of raw materials, consumables and purchased goods comprises the acquisition price including delivery costs. The cost price of finished goods and work in progress comprises costs of materials and direct labour plus indirect production costs.

Indirect production costs include indirect materials and wages, maintenance and depreciation on plant and machinery, factory buildings and other equipment used in the production process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the expected selling price less costs of completion and costs necessary to make the sale.

Receivables

Receivables comprise trade receivables, other financial receivables primarily loans to external parties and other receivables. The receivables are categorised as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

On initial recognition, the receivables are measured at fair value and subsequently at amortised cost price, which normally correspond to face value less provisions for expected losses. Provisions for losses are based on an individual assessment of each outstanding account.

Prepayments

Prepayments comprise incurred costs related to the following financial years. The prepayments are measured at cost.

Other financial liabilities

Other financial liabilities comprise trade payables and other payables to public authorities etc. and are measured at amortised cost.

Deferred income

Deferred income comprises received payments related to revenue in the following financial years. Deferred income is measured at cost price.

Critical accounting estimates and judgements

Trade receivables

Specific estimates of trade receivables are made on an assessment of the dealer's historical ability to pay and the current situation. The applied principles are unchanged from the 2014/15 financial year. The trade receivables amount to DKK 430.5 million as at 31 May 2016 (DKK 456.6 million as at 31 May 2015).

Inventories

A specific assessment of the need for write-downs for obsolescence of inventories is made based on an assessment of the future sales potential. During the assessment the expected technological developments and the expected service periods are taken into account. The applied principles are unchanged from the 2014/15 financial year. Inventories amount to DKK 498.0 million as at 31 May 2016 (DKK 533.1 million as at 31 May 2015).

3.5.1 Inventories

(DKK million)	**2015/16**	**2014/15**
Raw materials	128.7	132.8
Work in progress	28.5	30.4
Spare parts	69.7	75.1
Finished goods	271.1	294.8
Total 31 May	**498.0**	**533.1**

It is Group policy that spare parts should be available for a number of years after sale of the product. Accordingly, DKK 35.2 million (2014/15; DKK 38.2 million) is expected to be realised after more than 12 months.

Other disclosures:

(DKK million)	**2015/16**	**2014/15**
Inventory movement recognised in production costs	1,389.0	1,654.0
Impairment of inventories recognised in production costs	37.4	60.0
Reversal of impairment of inventories recognised in production costs	–	1.9

3.5.2 Trade receivables

(DKK million)	**2015/16**	**2014/15**
Trade receivables at 31 May (gross)	509.8	577.3
Impairment 1 June	(120.7)	(97.2)
Exchange rate adjustment to year-end rate	2.3	0.1
Change in impairment during the year	(26.4)	(59.8)
Actual losses during the year	65.5	36.2
Impairment 31 May	(79.3)	(120.7)
Trade receivables at 31 May (net)	**430.5**	**456.6**

All trade receivables fall due within one year.

Financial income of DKK 0.2 million (2014/15; DKK 4.2 million) has been recognised in the Group relating to impaired trade receivables.

Impairment of trade receivables is recognised in distribution and marketing costs in the income statement. The impairment charge is based on an individual assessment of each individual debtor's ability to pay. All overdue trade receivables are provided for, except for those where sufficient collateral has been obtained.

The carrying amount of receivables which fall due within one year after the end of the financial year, is expected to be a reasonable approximation of the fair value.

(DKK million)	**2015/16**	**2014/15**
Maturity analysis:		
Amounts not due	378.7	388.3
Overdue up to 30 days	2.0	6.2
Overdue between 30 and 60 days	7.2	8.7
Overdue between 60 and 90 days	7.4	9.2
Overdue between 90 and 120 days	5.9	13.4
Overdue more than 120 days	29.2	30.8
Trade receivables at 31 May (net)	**430.5**	**456.6**

For further details about the credit risk associated with the trade receivables, refer to Note 4.3 Financial Instruments.

3.6 Pensions

Accounting policies

As employer, the Bang & Olufsen Group participates in pension plans according to normal practice in the countries in which the Group operates. There are two types of plans; defined contribution plans and defined benefit plans.

Under **defined contribution plans** the Group recognises the pension contributions that can either be a fixed amount of a fixed percentage of the monthly salary in the income statement as they are paid to independent pension insurance companies. Any unpaid contributions are recognised in the balance sheet as a liability in other liabilities. Once the contributions have been paid the Group has no further obligations and the individual employee carries the risk for the value of the pension insurance at retirement. All pension plans in Denmark and most pension plans in the foreign subsidiaries are defined contribution plans.

Under **defined benefit plans** the Group has an obligation to pay a fixed amount or a fixed percentage of the salary at retirement. This means that the Bang & Olufsen carries the risk of any changes in the actuarially calculated capital value of the pension plans. Bang & Olufsen currently operates with defined benefit plans in Germany and in Norway.

Annual actuarial calculations are made of the present value of the future benefits that the employees are entitled to. The present value is calculated based on a number of assumptions relating to the future development in salary levels and interest-, inflation-, and mortality rates. The present value of the defined benefit obligation net of the fair value of the plan assets is recognised in the balance sheet as a pension asset or a pension liability.

Changes in the assumptions mentioned above as well as differences between the expected and the realised return on plan assets cause actuarial gains and losses are recognised immediately in other comprehensive income in the period in which they arise.

If the defined benefit plan is a net asset, the asset is recognised only if it corresponds to, or is lower than, the sum of unrecognised actuarial losses, unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Changes to the benefits that relate to the employees' previous employment in the Group, cause a change in the actuarially calculated present value, which is regarded as past service costs. If the covered employees are immediately entitled to the changed benefit the change is recognised in the income statement at once. Otherwise, the change is recognised in the income statement during the period where the employees become entitled to the changed benefit.

(DKK million)	**2015/16**	**2014/15**
Amounts recognised in the income statement:		
Defined contribution plans	35.9	47.8
Defined benefit plans	0.7	1.1
Total pension amount charged to the income statement	36.6	48.9
Amounts recognised in the balance sheet:		
Wholly unfunded defined benefit plans	3.3	3.3
Wholly or partly funded defined benefit plans	25.8	28.2
Present value of defined benefit obligation 31 May	29.1	31.5
Fair value of plan assets	(12.8)	(13.8)
Unrecognised actuarial (gains) and losses	–	–
Defined benefit plans obligation 31 May	16.3	17.7
Actual return on plan assets	0.1	0.2

The Group's defined benefit plans are administered by independent pension funds. None of the plan assets are connected to any of the Group companies.

The defined benefit plans in Germany and Norway are partly funded by means of an independent pension fund.

	Germany		Norway	
(DKK million)	**2015/16**	**2014/15**	**2015/16**	**2014/15**
Actuarial assumptions:				
Calculation rate p.a.	1.6%	1.6%	2.3%	2.3%
Expected salary increase p.a.	1.5%	1.5%	2.5%	2.75%
Expected rate of return p.a.	1.6%	1.6%	2.3%	2.3%

(DKK million)	**2015/16**	**2014/15**
Germany:		
Present value of future payments	20.3	20.9
Fair value of plan assets	(8.3)	(8.3)
Actuarially calculated net obligation	12.0	12.6
Norway:		
Present value of future payments	5.6	7.3
Fair value of plan assets	(4.5)	(5.5)
Actuarially calculated net receivable	1.1	1.8
Net obligation	13.0	14.4
Wholly unfunded defined benefit plans	3.3	3.3
Defined benefit plans 31 May, net	**16.3**	**17.7**

(DKK million) **5 year overview:**	**2015/16**	**2014/15**	**2013/14**	**2012/13**	**2011/12**
Present value of defined benefit obligation	29.1	31.5	28.2	27.2	26.2
Fair value of plan assets	(12.8)	(13.8)	(14.8)	(14.6)	(14.9)
Deficit, defined benefit plans	16.3	17.7	13.4	12.6	11.3
Experience-based adjustments of defined benefit obligation	–	4.2	1.2	1.4	1.7
Experience-based adjustments of plan assets for defined benefit plans	0.3	(0.6)	0.6	(0.0)	(0.1)

3.7 PROVISIONS

Accounting policies

Provisions comprise provisions for warranty, provisions for fairness and other provisions. Provisions for warranty are obligations to repair products within the warranty period, whereas provisions for fairness are obligations to repair products after the end of the warranty period.

Provisions are recognised when the Group has a legal or constructive obligation as a result of events in the financial year or previous years, and it is probable that an outflow of financial resources will be required to settle the obligation.

Provisions are measured on basis of past experience with warranty repairs employee anneversary benefits and other obligations. Provisions that are expected to fall due more than one year after the balance sheet date are measured at present value.

Critical accounting estimates and judgements

The Bang & Olufsen Group repairs or replaces products that do not function satisfactorily both within the warranty period and in certain situations after the warranty period. Consequently, provisions are made for future repairs and returns. The provisions are made based on historical statistics of repairs and returns and based on management's judgements.

The future repairs and returns can differ from the historical pattern, but management assesses that the estimate of the provisions is reasonable and appropriate.

The Group provides 2-5 years of warranty on certain products and is therefore committed to repairing or replacing products which do not function satisfactorily. Some products are repaired after the end of the warranty period, and a provision is made regarding this potential fairness claim.

Provisions for warranty and fairness of DKK 60.3 million have been recognised as at 31 May 2016 (2014/15; DKK 58.8 million) to cover expected warranty and fairness claims. The size and timing of the provisions are based on previous experience of the level and timing of repairs and returns. The principles are unchanged from the 2014/15 financial year. The decrease in the provision is due to a reduction in repair costs and a changed product mix within the warranty period. No reimbursements will be received from third parties to cover the provisions.

(DKK million)	**Warranty and fairness**	**Employee anniversary benefits**	**Other obligations**	**Total**
At 1 June 2014	51.7	2.9	14.0	68.5
Exchange rate adjustment to year-end rate	3.0	–	0.8	3.8
Provisions in the year	53.4	0.8	2.5	56.7
Provisions used in the year	(32.1)	(0.8)	(5.5)	(38.4)
Provisions reversed in the year	(17.2)	–	(3.2)	(20.4)
At 31 May 2015	58.8	2.9	8.6	70.2
Exchange rate adjustment to year-end rate	(1.1)	–	–	(1.1)
Provisions in the year	49.6	0.5	–	50.1
Provisions used in the year	(32.1)	(0.8)	(0.1)	(33.0)
Provisions reversed in the year	(14.9)	–	(3.2)	(18.1)
At 31 May 2016	**60.3**	**2.6**	**5.3**	**68.1**
Falls due 1-5 year	35.9	2.2	5.3	43.4
Falls due after 5 years	–	–	–	–
Non-current provisions	35.9	2.2	5.3	31.7
Falls due within one year	24.4	0.4	–	24.8
At 31 May 2015	**60.3**	**2.6**	**5.3**	**68.2**

3.8 DEFERRED INCOME

Deferred income classified as non-current liabilities constitute revenue related to the license agreement with HARMAN. This includes deferred revenue from the Aluminum production agreement and future license income.

SECTION 4

Capital structure and financing costs

This section contains notes relating to the capital structure and financial items of the Bang & Olufsen Group.

4.1 Mortgage loans and loans from banks

Accounting policies

Fixed interest loans, such as mortgage loans or bank loans, are recognised at the date of the loan at the received proceeds less transaction costs. In subsequent periods, the loans are measured at amortised cost price. This means, that the difference between the proceeds from the raising of the loan and the amount, that must be repaid, is recognised in the income statement during the term of the loan as a financial cost using the effective interest method.

The fair value is calculated as the present value of the expected future instalments and interest payments.

Other financial liabilities comprise overdraft facilities etc. and are measured at amortised cost price, which is practically the same as the nominal value.

4.1.1 Mortgage loans

	Falls due within 1 year	Falls due 1-5 years	Falls due after 5 years	Falls due after 1 year, total
Fixed rate loans, interest rate 4.1%	2.2	9.8	13.1	23.0
Floating rate loans, interest rate level 0.5 – 1.0%	6.3	27.4	130.6	158.0
Book value 31 May 2016	**8.5**	**37.2**	**143.7**	**181.0**
Fixed rate loans, interest rate 4.1%	2.1	9.4	17.4	26.8
Floating rate loans, interest rate level 0.5 – 1.0%	6.3	25.4	138.9	164.3
Book value 31 May 2015	**8.4**	**34.8**	**156.3**	**191.1**

The fair value of the Group's mortgage loans amounts to DKK 189.5 million (2014/15; DKK 199.9 million). All loans are in DKK.

4.1.2 Loans from banks

The Group has no current loans from banks (In 2014/15; DKK 210.0 million).

4.2 Financial items

Accounting policies

Financial items include interest income and cost, realised and unrealised capital gains and losses on securities, liabilities, and transactions in foreign currency as well as charges and refunds under the instalment payment tax scheme.

(DKK million)	**2015/16**	**2014/15**
Interest income from banks	0.9	0.8
Exchange rate gains, net	–	19.5
Other financial income	0.7	4.5
Financial income	**1.6**	**24.8**
Interest costs on bank loans etc	(3.3)	(9.6)
Interest costs on mortgage loans	(7.6)	(7.2)
Exchange rate losses, net	(11.3)	–
Other financial costs	(18.2)	(14.1)
Financial costs	**(40.5)**	**(30.9)**

All financial income and costs are related to financial assets and liabilities, which are not measured at fair value in the income statement.

4.3 Financial instruments

Accounting policies

Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; or
- derivative instruments designated as hedges.

The classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition.

Financial assets are recognised when the company becomes a party to the contractual provisions of the instrument or secures other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset.

Financial assets, or a portion of a financial asset, are derecognised when, and only when, the entity loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). Such control is lost if the entity realises the right to benefits specified in the contract, the rights expire, or the entity surrenders those rights.

Financial assets at fair value through profit or loss

Financial instruments are classified under this category if held for trading, or if designated at fair value through profit or loss at inception. A financial instrument is classified as held for trading if acquired or incurred principally for the purpose of selling it in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Financial instruments in this category are classified as current assets and liabilities. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Realised and unrealised gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the statement of comprehensive income during the period in which they arise. Financial derivative instruments on the statement of financial position are classified in this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months from year-end, which are classified as non-current assets. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost, less impairments, using the effective interest rate method. Loans and receivables comprise the other noncurrent financial assets, trade and other financial receivables, amounts due by Group companies, cash restricted for use and cash and cash equivalents.

Financial liabilities

Financial liabilities are classified into the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification is dependent on the purpose for which the financial liabilities were acquired or incurred. Management determines the classification of its financial liabilities at the time of initial recognition.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities at amortised cost

This category of financial liabilities comprises preference shares (liability component), borrowings, trade and other financial payables and amounts due to Group companies. These financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Accounting for derivative financial instruments and hedging activities

The Group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast that is the subject of the hedge must be highly probable.

The Group designates certain derivatives as one of the following on the date the derivative contract is entered into:

- a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment (fair value hedge); or

- a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income as financing costs/income, along with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised in the statement of comprehensive income over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The ineffective portion is recognised immediately in the statement of comprehensive income within financing costs. Where the forecast transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial cost or other carrying amount of the asset or liability. Otherwise, amounts deferred in equity are transferred to the statement of comprehensive income and classified as gains or losses in the same financial years during which the hedged firm commitment or forecast transaction affects the statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the statement of comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserves in shareholders' equity are shown under non-distributable reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within financing costs.

Fair value estimation

The fair value of publicly traded derivatives is based on quoted market prices at year-end. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at year-end.

Financial instruments that are measured at fair value in the statement of financial position are classified into the following levels of the fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly, as prices, or indirectly, derived from prices (level 2); and inputs for the assets or liabilities that are not based on observable market data, unobservable inputs (level 3).

Quoted market prices or dealer quotes for the specific or similar instruments are used for non-current debt. The fair values of non-current financial assets and deferred payables for disclosure purposes are estimated by discounting the future contractual cash flows at the interest rates available to the Group at year-end. Other techniques, such as options pricing models and estimated discounted value of future cash flows, are used to determine fair value of the remaining financial instruments.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group makes assumptions that are based on market conditions existing at each year-end.

The carrying values of the following financial assets and financial liabilities approximate their fair values:

- trade and other financial receivables;
- cash and cash equivalents;
- other non-current financial receivables;
- amounts due to Group companies;
- amounts due by Group companies;
- trade and other financial payables;
- current borrowings; and
- non-current borrowings.

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)

Categories of financial assets and liabilities

Carrying amount of financial instruments by measurement category under IAS 39

	2015/16		2014/15	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Other financial receivables	123.7	123.7	123.3	123.3
Trade receivables	430.5	430.5	456.6	456.6
Other receivables	48.9	48.9	71.5	71.5
Loans receivable and other receivables	**603.1**	**603.1**	**651.4**	**651.4**
Mortgage loans	189.6	190.5	199.5	199.9
Loans from banks	–	–	210.0	210.0
Trade payables	365.4	365.4	443.1	443.1
Other liabilities	270.5	273.4	309.1	309.1
Financial liabilities measured at amortised cost	**825.5**	**829.3**	**1,161.7**	**1,162.1**
Derivative financial instruments relating to hedging of forecasted future transactions included in other payables	(4.1)	(4.1)	(4.5)	(4.5)
Derivatives for hedging purposes	**(4.1)**	**(4.1)**	**(4.5)**	**(4.5)**

For financial assets and liabilities, the fair value is approximately equal to the carrying amount.

Foreign exchange derivatives are measured at fair value in the balance sheet. The fair value is based on observable market data and is part of level 2 in the fair value hierarchy and in the category financial assets and liabilities used as hedging instruments. The fair value is negative DKK 4.1 million (2014/15; negative DKK 4.5 million).

Foreign exchange rate risk

In 2015/16, 91 per cent of the Group's turnover was in foreign currency (2014/15; 90 per cent). Since part of the Group's purchasing policy is to match purchasing and sales currencies to the greatest possible extent, the figure does not express the Group's foreign exchange rate risk.

The Group has significant net inflows in EUR, GBP and CHF, and the most significant exposure is presently related to these. The most significant exposure on the outflow is USD and CZK. The company thus only has a limited natural hedging of the currency risk.

The Group's foreign exchange rate risks are managed centrally by the parent company's finance department based on a foreign exchange rate policy approved by the Board of Directors, under which up to 75 per cent of the expected net cash flows in selected currencies are covered. Forward contracts are continually used for this hedging. The forward contracts are classified as hedging and fulfil the accounting requirements for hedging of future cash flow. Forward contracts are used for commercial transactions only, and hedging is made for a horizon of up to 18 months.

Besides the foreign exchange rate risk relating to current transactions, the Group's equity is affected by foreign exchange rate risks relating to the translation of the Group's foreign subsidiaries from local currencies to DKK.

Foreign exchange contracts

As at 31 May 2015, the Group has entered into foreign exchange forward contracts at a repurchase value of negative net DKK 32.8 million (2014/15; DKK 244.3 million), with a fair value of negative DKK 4.1 million (2014/15; negative DKK 4.5 million).

Foreign exchange derivatives, net sales and purchases.

	31 May 2016		**31 May 2015**	
(DKK million)	**Contractual value**	**Fair value**	**Contractual value**	**Fair value**
USD	(227.5)	1.5	(339.3)	1.2
GBP	109.8	(7.3)	–	–
CHF	89.4	1.8	161.0	(5.5)
CZK	(23.7)	(0.1)	(66.0)	(0.2)
Other	19.2	0.0	–	–
Total	**(32.8)**	**(4.1)**	**(244.3)**	**(4.5)**

Sensitivity analysis

Effect on Group EBIT and equity based on 5 per cent change in the selected currencies compared to average annual rates estimated on unhedged basis.

	EBIT		Equity	
(DKK million)	**2015/16**	**2014/15**	**2015/16**	**2014/15**
USD	(2.4)	(9.8)	(1.8)	(7.5)
GBP	10.0	8.4	7.7	6.4
CHF	7.0	8.4	5.4	6.4
Other	(1.2)	–	–	0.8
Total	**13.4**	**7.0**	**11.3**	**6.1**

Interest rate risk

The Group interest rate risk relates to interest-bearing assets and debt.

The Group interest-bearing assets mainly consist of liquid funds, which at the end of the financial year totaled DKK 788.5 million (2014/15; DKK 1198.0 million). Liquid funds yield interest in the short-term money market. The interest rate risk is deemed to be insignificant in that a change in the interest rate level of 0.5 percentage points would have impacted the Group's earnings before tax by approx. DKK 3.9 million in 2015/16 (2014/15; DKK 0.6 million).

At the end of the financial year, the Group's interest-bearing debt totaled DKK 189.6 million (2014/15; DKK 409.5 million) corresponding to 6.7 per cent of the balance sheet total (2014/15; 11.7 per cent).

Of the interest-bearing debt DKK 143.7 million falls due after five years (2014/15; DKK 156.3 million). Further information is provided in note 4.1.

Due to the low debt level and the fact that the borrowings are in fixed rate loans or loans with a fixed rate of minimum three years, the Group's interest rate risks are insignificant and are not expected to significantly impact the Group's earnings.

Credit risk

The Group's balance sheet items that are subject to credit risk are primarily trade receivables and bank deposits. The amounts at which these balance sheet items are recognised correspond to the maximum credit risk.

At the end of the financial year, the Group sold its products through 657 dealers worldwide. The Group is, therefore, exposed to a risk of losses on trade receivables.

The individual dealers, including their geographical location, are subject to ongoing evaluation. When deemed necessary, the Group employs bank guarantees or debtor insurance against outstanding debts, and in some situations other forms of securities are attained, e.g. in the form of security in inventories or other assets.

In the 2015/16 financial year, DKK 65.5 million was expensed as losses on trade receivables (2014/15; DKK 36.2 million).

Liquid funds are placed with financial institutions with high credit ratings. Derivatives, including foreign exchange forward contracts, are entered into with such institutions only. Therefore, it is deemed that the credit risk relating to liquid funds is of no significance to Bang & Olufsen's annual report.

Liquidity risk

The financial reserve is continually assessed and managed by the parent company's finance department. It is ensured that there at any given time, is sufficient, flexible and unused credit available provided by major, reputable financial institutions. On the basis of the Group's financial reserve arrangements, and the expectations to the Groups future cash flows, management believes that there are sufficient capital resources.

Contractual maturity analysis for financial liabilities

(DKK million)	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
2015/16				
Long-term bank loans	–	60.7	186.0	246.7
Short-term bank loans	16.4	–	–	16.4
Trade payables	365.4	–	–	365.4
Total non-derivative financial liabilities	381.8	60.7	186.0	628.5
Total financial liabilities	**381.8**	**60.7**	**186.0**	**628.5**

(DKK million)	Less than one year	Between one and five years	More than five years	Total
2014/15				
Long-term bank loans	–	60.3	202.3	262.6
Short-term bank loans	218.4	–	–	218.4
Trade payables	443.1	–	–	443.1
Total non-derivative financial liabilities	661.5	60.3	202.3	924.1
Total financial liabilities	**661.5**	**60.3**	**202.3**	**924.1**

Specification of net interest-bearing debt

(DKK million)	2015/16	2014/15
Cash and cash equivalents	788.5	1,198.0
Bank loans, non-current liabilities	(181.1)	(191.1)
Bank loans, current liabilities	(8.5)	(218.4)
Total	**598.9**	**788.5**

Defaults or breaches on loans

No loan agreements have been defaulted or breached in 2015/16 or 2014/15.

4.4 Capital structure

Bang & Olufsen operates in an industry with very frequent and significant changes in technology, and therefore, the Group will from time to time be faced with small or medium-sized investment opportunities within new business areas and new fields of technology. The product distribution largely takes place through partner-owned retail shops. But in certain markets it might from time to time be necessary for the Group to acquire established retail networks or open new stores. The second phase of the strategy still requires substantial investments in R&D and other strategic initiatives, driving the company towards a profitable growth and positive cash flow. Therefore, based on the company's result and to have sufficient funds to support the strategic initiatives, the Board of Directors proposes to the Annual General Meeting that no dividend be paid out for the 2015/16 financial year. It is the intention of the Board of Directors to resume dividend payments as soon as the financial results can justify it.

4.5 Share capital

Accounting policies

Dividend

Dividend is recognised as a liability at the time of approval by the Annual General Meeting.

Own shares

Acquisition and sales prices for own shares and dividend received on these shares are recognised directly in equity under retained earnings.

Translation reserve

The translation reserve for exchange rate differences in the consolidated financial statements comprises exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into Bang & Olufsen a/s' presentation currency.

On disposal of net investments, the exchange rate differences on the individual investment are recognised in the profit and loss account. The reserve is a distributable reserve.

Reserve for cash flow hedges

Reserve for cash flow hedges comprises accumulated changes in fair value of derivative financial instruments, which meets the conditions for hedging of future cash flows, where the hedged position has not yet been realised.

The changes in fair value are transferred to the profit and loss account, when the hedged positions are realised.

	Issued shares			
	Number		Nominal value (DKK mio)	
(DKK million)	**2015/16**	**2014/15**	**2015/16**	**2014/15**
1 June	43,197,478	39,270,435	432.0	392.7
Capital increase	–	3,927,043	–	39.3
31 May	**43,197,478**	**43,197,478**	**432.0**	**432.0**

The share capital consists of 43,197,478 shares with a nominal value of DKK 10 each. Each share gives one vote. No shares have special rights. There are no limitations to transferability and no voting restrictions.

(DKK million)	**2015/16**	**2014/15**	**2013/14**	**2012/13**	**2011/12**
Specification of movements in the share capital:					
Share capital	432.0	392.7	392.7	362.4	362.4
Capital increase	–	39.3	–	30.3	–
Share capital	432.0	432.0	392.7	392.7	362.4

Own shares

	Number		Nominal value (DKK mio)		% of share capital	
(DKK million)	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**
1 June	22,999	77,369	0.2	0.8	0.1	0.2
Used in connection with employee share option programmes	–	(54,370)	–	(0.5)	–	(0.1)
31 May	**22,999**	**22,999**	**0.2**	**0.2**	**0.1**	**0.1**

All own shares are owned by Bang & Olufsen a/s.

4.6 Share-based payment and matching shares

Accounting policies

Share-based incentive programmes

Share-based incentive programmes, in which the Executive Management Board and selected other key employees are given the right to buy shares in the parent company (equity-settled programmes), are measured at the fair value of the equity instruments at grant date and are recognised in the income statement as part of staff costs during the period where the employees become entitled to buy the shares. The other side of the entry is recognised directly in equity.

The fair value of the equity instruments is calculated on the basis of the Monte Carlo simulation model based on the assumptions listed below.

Share options have not been granted in the financial year 2015/16.

Matching shares

The Remuneration Committee of the Board of Directors has decided in 2014/15 to implement a matching share programme (MSP) to replace the stock option programmes previously used as a variable component in compensation offered to key employees.

The participating employees are offered the opportunity to acquire shares in Bang & Olufsen a/s at their own cost, which after three years of ownership will provide the right to receive 1-4 matching shares per investment share, depending on the number of investment shares acquired and the performance of the Bang & Olufsen Group.

The MSP should be accounted for on an accruals basis over the three-year vesting period, as it is a condition that the employees should be employed until vesting.

The accounting value is the value of the maximum number of matching shares to be granted times the probability of the shares vesting. This probability is adjusted every year until vesting.

Share-based payment

The Bang & Olufsen Group's share option programme extend to the Executive Management Board and a number of key employees in the Group. As at 31 May 2016, the total pool of options amount to 1,023,010 options, which can be exercised in the period 2016-2017. Vesting of the share options is dependent on the recipient of the option being employed during the vesting period.

For some of the programmes there are certain demands regarding development in share price and other performance measures.

The share options can only be settled with shares. To a limited extent, Bang & Olufsen a/s has purchased own shares to cover the obligation for the outstanding options. The shares are recognised directly in the equity. The holding of own shares totals 22,999 shares as at 31 May 2016 (22,999 shares as at 31 May 2015).

	2015/16		**2014/15**	
	Number of options	**Avg. exercise price per options (DKK)**	**Number of options**	**Avg. exercise price per options (DKK)**
Outstanding at 1 June	2,127,790	58	3,037,285	77
Granted	239,032	–	271,104	–
Exercised	(96,759)	47	(134,411)	48
Expired	(736,916)	82	(1,023,731)	78
Forfeited	(6,000)	–	(22,457)	71
Outstanding 31 May	**1,527,147**	**39**	**2,127,790**	**58**

Further information about the outstanding stock options:

	2015/16			2014/15		
	Number of options	Avg. exercise price per options (DKK)	Remaining term to maturity (months)	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)
Outstanding programme 2009/10	–	–	–	58,339	58	2
Outstanding programme 2010/11	75,605	47	2	172,364	47	14
Outstanding programme 2010/11	–	–	–	–	–	–
Outstanding programme 2010/11	–	–	–	416,667	86	3
Outstanding programme 2011/12	–	–	–	–	–	–
Outstanding programme 2012/13	–	–	–	261,911	81	3
Outstanding programme 2013/14	665,000	60	3	665,000	60	15
Outstanding programme 2013/14	282,405	55	3	282.405	55	15
Matching shares 2014/15	265,104	–	17	271,104	–	29
Matching shares 2015/16	239,032	–	29			
Outstanding 31 May	1,527,147	–		2,127,790	–	

The value of the share-based payment expresses the group income statement effect of allocated share options. 96,759 share options have been exercised in the year with an average exercise price of DKK 47.

The share option agreements entitle Bang & Olufsen to demand cash settlement of the share options. 96,759 share options were settled with cash settlement and total payment amounted to DKK 3 million.

The remaining options have not been, and may never be exercised.

Matching shares

As stated in company announcement 14.11 from 15 September 2014, the Board of Directors has implemented a matching share programme (MSP) to replace the stock option programmes, previously used as a variable component in compensation offered to key employees.

The participating employees are offered the opportunity to acquire shares in Bang & Olufsen a/s at their own cost, which after three years of ownership will provide the right to receive 1-4 matching shares per investment share depending on the number of investment shares acquired and the performance of the Bang & Olufsen Group.

The fair value of matching shares is DKK 46 per option, based on the share price at the time of grant (2014/15; DKK 46).

Staff cost recognised in the income statement in relation to share-based payments were DKK 11.1 million of which DKK 8.2 million relates to matching shares programme (2014/15; DKK 4.6 million of which DKK 0.8 million relates to matching shares).

SECTION 5
OTHER NOTES

This section contains other statutory notes and notes of secondary importance for understanding the financial performance of the Bang & Olufsen Group.

5.1 Non-cash items

Accounting policies

Cash flow statement

The presentation of the cash flow statement follows the indirect method, based on earnings for the year.

The cash flow statement shows the cash flows for the year, the year's change in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities

Cash flow from operating activities are stated as earnings for the year adjusted for non-cash income statement items and changes to working capital. The working capital is made up of current assets less current liabilities, excluding items, which are recognised as cash and cash equivalents.

Cash flow from investing activities

Cash flow from investing activities comprises the acquisition and sale of intangible, tangible and financial non-current assets and investment property.

Free cash flow

Cash produced from operations less the costs of expanding the asset base.

Cash flow from financing activities

Cash flow from financing activities comprises borrowings and instalments on non-current liabilities, dividends paid and proceeds from increases in the share capital as well as sales and repurchase of own shares.

Cash and cash equivalents

Cash and cash equivalents comprise cash less overdraft facilities, which forms part of the Group's ongoing cash flow management. Cash flows in foreign currency, including cash flows in foreign subsidiaries, are translated at average monthly exchange rates, which do not deviate materially from the exchange rates prevailing on the date of payment.

(DKK million)	**2015/16**	**2014/15**
Change in other liabilities	(18.7)	7.0
Financial income	(1.6)	(24.8)
Financial costs	40.5	30.9
Result of investments in associates after tax	0.4	(10.5)
Gain/loss on sale of non-current assets	(4.1)	1.8
Gain/loss on sale of business	39.0	(643.0)
Tax on earnings for the year	(36.4)	8.7
Other adjustments	(28.3)	(32.4)
Total adjustments	**(9.1)**	**(662.3)**

5.2 Discontinued operations

Accounting policies

Discontinued operations represent a separate major line of business disposed of or in preparation for sale. The results of discontinued operations are presented separately in the income statement and comparative figures are restated. Assets and related liabilities from discontinued operations are presented as separate items in the balance sheet, and the cash flows from discontinued operations are presented separately in the cash flow statement.

Individual assets or groups of assets that are to be disposed of collectively are classified as assets held for sale, when the activities to carry out such a sale have been initiated and the activities are expected to be disposed of within 12 months. Liabilities of a disposal group that are directly related to assets held for sale are presented correspondingly.

Assets and liabilities from discontinued operations and assets held for sale except financial assets, etc. are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

Discontinued operations includes the former business area Automotive sold at end of 2014/15 and ICEpower sold at the end of April 2016.

(DKK million)	**2015/16**	**2014/15**
Revenue	94.0	647.1
Expenses	(57.5)	(421.7)
Earnings before tax	**36.5**	**225.4**
Tax	(7.4)	(53.0)
Earnings for the year discontinued operations	**29.1**	**172.4**
Gains/losses on sale of assets and businesses	(39.0)	643.0
Tax	–	(151.1)
Gains/losses on sale of assets and businesses after tax	**(39.0)**	**491.9**
Total earnings from discontinued operations	**(9.9)**	**664.3**
Earnings per share of discontinued operations	(0.2)	15.5
Diluted earnings per share of discontinued operations	(0.2)	15.5
Cash flow from operating activities	52.6	283.3
Cash flow used for investing activities	13.4	1,063.2
Cash flow from financing activities	–	–
Net cash flow from discontinued operations	**–**	**1,346.5**
Balance sheet items comprise:		
Development projects	–	34.4
Plant & machinery	2.9	0.2
Other equipment and assets under construction	–	1.1
Inventories	–	9.1
Trade receivables	–	18.9
Other receivables	–	12.0
Prepayments	–	1.8
Cash	–	0.1
Assets held for sale	**2.9**	**77.6**
Trade payables	–	8.4
Provisions	–	1.8
Corporation tax payable	–	3.3
Other liabilities	–	2.8
Liabilities associated with assets held for sale	**–**	**16.3**

5.3 Contingent liabilities and other financial commitments

Critical accounting estimates and judgements

The Group has entered into a number of operating leases and rental agreements regarding plant and machinery, shops and other property. There is a big diversity in the length of the agreements. The longest agreement has a term of 15 years.

All agreements contain conditions regarding renewal. The Group is entitled to determine, whether or not the agreements are renewed. None of the agreements impose restrictions in the Group's rights of disposal.

(DKK million)	**2015/16**	**2014/15**
Leasing commitments:		
Plant and machinery etc.	16.4	29.1
Shops	166.3	222.0
Office and factory property	129.5	191.7
Total	**312.1**	**442.8**
Maturity:		
Due within 1 year	79.9	111.9
Due 1 - 5 years	131.7	207.3
Due after 5 years	100.5	123.6
Total	**312.1**	**442.8**
Rental and lease payments, net for the year	117.5	148.1
Minimum rental and lease payments	117.5	148.1

No contingent rental or lease payments have been recognised in the income statement in 2015/16 or 2014/15.

In connection with the establishment of shops in previous financial years, the Group has entered into a number of long-term rental agreements. The agreements include conditions concerning the right to sublet.

The Group has not entered into any non-cancellable lease agreements as at the balance sheet date.

(DKK million)	**2015/16**	**2014/15**
Guarantees		
Total guarantees as at 31 May	0.4	2.4

None of the guarantees are expected to result in any losses.

VAT and other taxes

The Danish companies in the Group are jointly registrated and are jointly and severally liable for VAT and other taxes of a total of DKK 22.6 million (2014/15; DKK 24.1 million).

Mortgages and securities

Land and buildings and investment property have been mortgaged in the amount of DKK 189.7 million (2014/15; DKK 265.1 million) as security for DKK 189.5 million of the Group's mortgage and bank debt (2014/15; DKK 199.5 million).

Other tangible non-current assets relating to the land and buildings and investment property are included in the mortgages. The carrying amount of the Group's mortgaged land and buildings and investment property is DKK 105.9 million (2014/15; DKK 113.1 million). No intangible assets, financial assets or inventories are pledged as security for liabilities.

Lawsuits

The companies in the Group are parties to a few pending lawsuits. The management assesses that the outcome of the lawsuits will not materially influence the Group's financial position. In accordance with the exemption clause in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', no further information is given regarding the lawsuits, as further information might harm the Group.

5.4 Related parties

No related parties have a controlling influence in the Bang & Olufsen Group.

The related parties that have significant influence in the Bang & Olufsen Group, are the Board of Directors, the Executive Management Board and other key management personnel in other companies in the Group and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

The related parties in Bang & Olufsen a/s and the Bang & Olufsen Group also comprise the associate Bang & Olufsen John Bjerrum Nielsen A/S, in which Bang & Olufsen a/s has significant influence.

Bang & Olufsen's share in subsidiaries and associates is outlined on page 107. The shares in associated company has been disposed in May 2016. The transactions below include all purchases until the shares were disposed.

Board of Directors, Executive Management Board and other key management personnel

Except from what follows from the employment and shareholdings, if any, there have been no transactions with the Board of Directors, Executive Management Board and other key management personnel. Remuneration and share option programmes are outlined in notes 2.2 and 4.6.

The Executive Management Board's terms of notice is in accordance with normal market conditions (up to 24 months).

Associated companies

The transactions with the associates have included the following:

(DKK million)	**2015/16**	**2014/15**
Purchase of raw materials	(22.6)	(27.0)

Other transactions

No other transactions have taken place with related parties.

5.5 Material events after the balance sheet date

No material events have occured after the balance sheet date.

5.6 Approval of the annual report for publication

At the board meeting held on 11 August 2016, the Board of Directors have approved the publication of this Annual Report.

The Annual Report will be presented for adoption at the Annual General Meeting of Bang & Olufsen a/s on 14 September 2016.

5.7 Companies in the Bang & Olufsen group

Company name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
Bang & Olufsen a/s	Struer, DK	DKK	431,974,780		
Bang & Olufsen Operations a/s	Struer, DK	DKK	156,000,000	100 %	
Scandinavia					
Bang & Olufsen Danmark a/s	Struer, DK	DKK	3,000,000	100 %	
Bang & Olufsen AS	Oslo, N	NOK	3,000,000	100 %	
Bang & Olufsen Svenska AB	Stockholm, S	SEK	4,150,000	100 %	
Central Europe					
Bang & Olufsen Deutschland G.m.b.H.	München, D	EUR	1,022,584	100 %	
Bang & Olufsen AG	Bassersdorf, CH	CHF	200,000	100 %	
Bang & Olufsen Ges. m.b.H	Tulln, A	EUR	1,744,148	100 %	
United Kingdom/Benelux					
Bang & Olufsen United Kingdom Ltd.	Berkshire, GB	GBP	2,600,000	100 %	2
S.A. Bang & Olufsen Belgium N.V.	Dilbeek, B	EUR	942,000	100 %	
Bang & Olufsen b.v.	Naarden, NL	EUR	18,000	100 %	
Rest of Europe					
Bang & Olufsen France S.A.	Levallois-Perret, F	EUR	3,585,000	100 %	1
Bang & Olufsen España S.A.	Madrid, E	EUR	1,803,036	100 %	2
Bang & Olufsen Italia S.p.A.	Milano, I	EUR	774,000	100 %	
North America					
Bang & Olufsen America Inc.	Deerfield, IL, USA	USD	34,000,000	100 %	3
Asia					
Bang & Olufsen Asia Pte Ltd.	Singapore, SG	SGD	2	100 %	
Bang & Olufsen Hong-Kong Pty Ltd	Hong Kong, HK	HKD	1,000,000	100 %	2
Bang & Olufsen Trading (Shanghai) Ltd	Shanghai, CN	RMB	67,000,000	100 %	
Middle East					
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100 %	
Other					
Bang & Olufsen Expansion a/s	Struer, DK	DKK	7,000,000	100 %	
Bang & Olufsen s.r.o	Koprivnice, CZ	CZK	187,800,000	100 %	
B&O PLAY a/s	Struer, DK	DKK	7,500,000	100 %	
Bang & Olufsen ICEpower a/s*	Lyngby Taarbæk, DK	DKK	1,939,750	100 %	
Bang & Olufsen OÜ**	Tallin, EE	EEK	40,000	100 %	
Associates					
John Bjerrum Nielsen A/S*	Bramming, DK	DKK	10,000,000	33 %	

Dormant companies have not been included

* *Sold as of May 2016*

** *Liquidated in 2015/16*

5.8 Key figure definitions

Gross margin, %

Gross profit/(loss) x 100/Revenue

EBITDAC

Earnings before interest, tax, depreciation, amortisation, impairment losses, capitalisation and result of investments in associates after tax

EBITDA

Earnings before interest, tax, depreciation, amortisation, impairment losses and result of investments in associates after tax

Free cash flow

Sum of cash flow from operating and investing activities

EBITDA-margin, %

EBITDA x 100/Revenue

EBIT-margin, %

Operating profit/(loss) x 100/Revenue

NIBD/EBITDA, %

Sum of mortgage loans, loans from banks, credit facilities and cash x 100/ EBITDA

Return on assets, %

Operating profit/(loss) x 100/Average operational assets

Return on invested capital excl. goodwill, %

EBITA x 100/Average invested capital, excl. goodwill

Return on equity, %

Earnings for the year excl. minority interests x 100/Average equity excl. minority interest

Earnings per share (EPS), DKK

Earnings for the year, excl. minority interests/Average number of shares in circulation

Earnings per share, diluted (EPS-D), DKK

Profit/(loss) for the year, excl. minority interests/Average number of shares in circulation (diluted)

Price/earnings

Quotation/Earnings per share (nom. DKK 10)

Key figures are calculated in accordance with "Recommendations and Ratios 2015" issued by the Danish Society of Financial Analysts.

(d) Published unaudited financial statements for the three months ended 31 August 2016

The following is the extracted unaudited consolidated interim report of B&O for the three months ended 31 August 2016, which were prepared in accordance with IFRS as adopted by the European Union. These financial statements were presented in millions of Danish Kroner, being the local currency in Denmark, except where otherwise stated. B&O's financial statement for the three months ended 31 August 2016 is available free of charge, in printable format on B&O's website (http://www.bang-olufsen.com/en/investors/company-announcements/interim-reports).

CONSOLIDATED INCOME STATEMENT

		1st quarter		Year
(DKK million)	*Note*	**2016/17**	**2015/16**	**2015/16**
Revenue		**515.5**	**506.0**	**2,633.4**
Production costs		(343.1)	(353.5)	(1,681.5)
Gross profit		**172.4**	**152.5**	**951.9**
Development costs	*3*	(75.3)	(71.5)	(314.8)
Distribution and marketing costs		(163.0)	(166.4)	(740.3)
Administration costs		(22.7)	(20.3)	(104.3)
Other operating income		–	19.5	42.0
Other operating expenses		–	(18.6)	(36.8)
Operating profit (EBIT)		**(88.7)**	**(104.7)**	**(202.2)**
Share of result after tax in associated companies		–	–	(0.4)
Financial income		1.6	0.3	1.6
Financial expenses		(0.2)	(13.8)	(40.5)
Financial items, net		**1.3**	**(13.5)**	**(38.9)**
Earnings before tax (EBT)		**(87.3)**	**(118.3)**	**(241.6)**
Income tax		20.8	26.1	43.8
Earnings for the year – continued operations		(66.5)	(92.2)	(197.8)
Earnings for the year – discontinued operations	*6*	–	6.1	(9.9)
Earnings for the year		**(66.5)**	**(86.1)**	**(207.7)**
Earnings per share				
Earnings per share (EPS) DKK		(1.5)	(2.0)	(4.8)
Diluted earnings per share (ESP-D) DKK		(1.5)	(2.0)	(4.8)
Earnings per share (EPS) from continuing operations, DKK		(1.5)	(2.1)	(4.6)
Diluted earnings per share (ESP-D) from continuing operations, DKK		(1.5)	(2.1)	(4.6)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		1st quarter		Year
(DKK million)	*Note*	**2016/17**	**2015/16**	**2015/16**
Earnings for the year		**(66.5)**	**(86.1)**	**(207.7)**
Items that will be reclassified subsequently to the income statement:				
Exchange rate adjustment of investment in foreign subsidiaries		(3.5)	(4.6)	(3.5)
Change in fair value of derivative financial instruments used as cash flow hedges		(0.6)	3.7	1.9
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:				
Transfer to revenue		1.0	(1.5)	6.3
Transfer to production costs		–	0.8	(0.5)
Income tax on items that will be reclassified to the income statement:		(0.1)	(0.7)	(1.7)
Items that will not be reclassified subsequently to the income statement:				
Actuarial gains/(losses) on defined benefit plans		–	–	0.8
Income tax on items that will not be reclassified to the income statement:		–	–	(0.2)
Other comprehensive income for the year, net of tax		**(3.2)**	**(2.3)**	**3.1**
Total comprehensive income for the year		**(69.7)**	**(88.4)**	**(204.6)**

CONSOLIDATED BALANCE SHEET

(DKK million)	*Note*	**31/8/16**	**31/8/15**	**31/5/16**
Goodwill		66.5	69.7	66.4
Acquired rights		4.7	6.9	6.1
Completed development projects		211.8	281.2	231.2
Development projects in progress		162.7	99.6	151.6
Intangible assets		**445.6**	**457.3**	**455.2**
Land and buildings		95.1	102.3	97.8
Plant and machinery		59.0	56.5	63.5
Other equipment		16.5	26.5	18.9
Leasehold improvements		18.8	47.1	21.8
Tangible assets in course of construction and prepayments for tangible assets		8.3	13.3	7.7
Tangible assets		**197.7**	**245.7**	**209.7**
Investment property		**16.3**	**17.2**	**16.5**
Investments in associates		–	5.9	–
Other financial receivables		29.5	123.6	30.6
Financial assets		**29.5**	**129.6**	**30.6**
Deferred tax assets		**219.5**	**203.3**	**209.0**
Total non-current assets		**908.6**	**1,053.0**	**921.0**
Inventories		**526.0**	**528.5**	**498.0**
Trade receivables		350.2	433.1	430.5
Other financial receivables		93.1	–	93.1
Corporation tax receivable		52.3	41.3	32.0
Other receivables		51.2	56.9	48.9
Prepayments		13.9	28.7	17.0
Total receivables		**560.7**	**560.0**	**621.4**
Cash		**750.7**	**816.3**	**788.5**
Assets held for sale	*6*	**2.9**	**77.4**	**2.9**
Total current assets		**1,840.2**	**1,982.2**	**1,910.8**
Total assets		**2,748.8**	**3,035.3**	**2,831.8**

(DKK million)	*Note*	**31/8/16**	**31/8/15**	**31/5/16**
Share capital		432.0	432.0	432.0
Translation reserve		17.6	20.5	21.1
Reserve for cash flow hedges		2.8	(1.2)	2.5
Retained earnings		1,202.5	1,382.9	1,269.3
Total equity		**1,654.9**	**1,834.2**	**1,724.9**
Pensions		14.9	16.3	14.8
Deferred tax		11.0	9.8	11.5
Provisions		42.0	44.6	43.4
Mortgage loans		177.3	187.5	181.1
Other non-current liabilities		0.9	1.6	1.1
Deferred income		133.7	145.7	136.7
Total non-current liabilities		**379.9**	**405.6**	**388.6**
Mortgage loans		8.5	8.4	8.5
Provisions		24.8	25.6	24.8
Trade payables		365.1	444.9	365.4
Corporation tax payable		24.4	33.3	9.3
Other liabilities		258.3	189.2	270.5
Deferred income		32.8	75.3	39.8
Other current liabilities		**714.0**	**776.7**	**718.3**
Liabilities associated with assets held for sale		**–**	**18.9**	**–**
Total liabilities		**1,093.9**	**1,201.1**	**1,106.9**
Total equity and liabilities		**2,748.8**	**3,035.3**	**2,831.8**

CONSOLIDATED CASH FLOW STATEMENT

		1st quarter		Year
(DKK million)	*Note*	**2016/17**	**2015/16**	**2015/16**
Earnings for the year – continuing operations		(66.5)	(92.2)	(197.8)
Earnings for the year – discontinued operations		–	6.1	(9.9)
Amortisation, depreciation and impairment losses		48.7	62.3	248.4
Adjustments for non-cash items	*4*	(22.2)	(18.5)	(9.1)
Change in receivables		81.1	33.6	64.9
Change in inventories		(28.0)	3.3	30.2
Change in trade payables etc		(19.4)	(110.5)	(127.6)
Cash flow from operations		**(6.4)**	**(115.9)**	**(0.8)**
Interest received and paid, net		1.3	(2.2)	(9.3)
Income tax paid		(1.4)	(0.6)	5.1
Cash flow from operating activities		**(6.5)**	**(118.8)**	**(5.0)**
Purchase of intangible non-current assets		(26.7)	(33.4)	(165.8)
Purchase of tangible non-current assets		(3.1)	(15.6)	(46.0)
Sales of tangible non-current assets		2.6	–	1.7
Proceeds from sale of associated companies		–	–	5.5
Proceeds from sale of businesses		–	–	23.0
Change in financial receivables		1.2	(0.3)	–
Cash flow from investing activities		**(26.0)**	**(49.3)**	**(181.6)**
Free cash flow		**(32.5)**	**(168.1)**	**(186.7)**
Repayment of long-term loans		(3.8)	(213.6)	(219.8)
Settlement of share options		(1.6)	–	(3.0)
Cash flow from financing activities		**(5.4)**	**(213.6)**	**(222.8)**

(DKK million)	*Note*	1st quarter 2016/17	1st quarter 2015/16	Year 2015/16
Change in cash and cash equivalents		**(37.9)**	**(381.7)**	**(409.5)**
Cash and cash equivalents, opening balance		788.5	1,198.0	1,198.0
Cash and cash equivalents, closing balance		**750.6**	**816.3**	**788.5**
Cash and cash equivalents:				
Cash		750.6	816.3	788.5
Cash and cash equivalents, closing balance		**750.6**	**816.3**	**788.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	*Note*	**31/8/16**	**31/8/15**	**31/5/16**
Equity, opening balance		**1,724.9**	**1,921.4**	**1,921.4**
Earnings for the period		(66.5)	(86.1)	(207.7)
Other comprehensive income, net of tax		(3.2)	(2.3)	3.1
Comprehensive income for the period		(69.7)	(88.4)	(204.6)
Grant of share options		1.3	1.1	11.1
Settlement of share options		(1.6)	–	(3.0)
Equity, closing balance		**1,654.9**	**1,834.2**	**1,724.9**

NOTES

1 Accounting principles

The interim report for Bang & Olufsen a/s is prepared as a condensed set of financial statements in accordance with IAS 34 'Interim Financial Reporting', as endorsed by the European Union and further additional Danish disclosure requirements for interim reports for listed companies. The interim report has not been audited or reviewed by the company's external auditors. An interim report for the parent company has not been prepared. The interim report is stated in Danish krone (DKK) which is the functional currency of the parent company.

The accounting principles and computation methods applied in the interim report are unchanged compared to the principles applied in the 2015/16 Annual Report.

The Annual Report 2015/16 contains a full description of applied accounting principles.

2 Significant estimates and assessments by management

The preparation of interim reports requires that management makes estimates and assessments which affect the application of accounting principles and recognised assets, liabilities, income and expenses. Actual results may vary from these estimates.

The material estimates that management makes when applying the accounting principles of the Group, and the material uncertainty connected with these estimates and assessments are unchanged in the preparation of the interim report compared to the preparation of the Annual Report.

3 Development costs and EBITDAC

	1st quarter		Year
(DKK million)	**2016/17**	**2015/16**	**2015/16**
Incurred development costs before capitalisation	67.0	61.5	302.1
Hereof capitalised	(26.7)	(30.5)	(152.0)
Incurred development costs after capitalisation	40.3	31.0	150.1
Capitalisation (%)	*39.8%*	*49.6%*	*50.3%*
Total charges and impairment losses on development projects	35.0	40.5	164.7
Development costs recognised in the consolidated income statement	**75.3**	**71.5**	**314.8**
EBITDA	(40.0)	(42.4)	46.2
Capitalised development costs	(26.7)	(30.5)	(152.0)
EBITDAC	**(66.7)**	**(72.9)**	**(105.8)**

4 Adjustments for non-cash items in the cash flow statement

	1st quarter		Year
(DKK million)	**2016/17**	**2015/16**	**2015/16**
Change in other liabilities	(4.4)	(3.3)	(18.7)
Financial items, net	(1.3)	13.5	38.9
Result of investments in associates after tax	–	–	0.4
Gain/loss on sale of non-current assets	(2.5)	0.4	(4.1)
Gain/loss on sale of business	–	–	39.0
Tax on earnings for the year	(20.8)	(24.2)	(36.4)
Other adjustments	6.8	(4.9)	(28.3)
Total adjustments	**(22.2)**	**(18.5)**	**(9.1)**

5 Segment information

(DKK million)	1st quarter 2016/17	1st quarter 2015/16	Reported Change %	Local currency Change %
Revenue by segment and business area				
Bang & Olufsen	286.8	343.3	(16)	(16)
B&O PLAY	228.7	162.7	41	40
Total	**515.5**	**506.0**	**2**	**2**
Gross margin by business area, %				
Bang & Olufsen	33.3%	32.7%		
B&O PLAY	33.6%	24.8%		
Gross margin %, Group	**33.4%**	**30.1%**		

In the Management Report gross margin for 2015/16 has been adjusted to underlying business. 2015/16 included production costs of DKK 12 million related to costs previously allocated to Automotive.

Revenue by region				
Europe	310.5	309.5	0	1
North America	52.3	68.9	(24)	(27)
Greater China	77.6	64.8	20	20
Rest of World	75.1	62.8	20	20
Total	**515.5**	**506.0**	**2**	**2**
Revenue by channel				
B1 and shop-in-shop distribution	368.8	410.8	(10)	
3rd party distribution and e-commerce	146.7	95.2	54	
Total	**515.5**	**506.0**	**2**	

6 Discontinued operations

	1st quarter		Year
(DKK million)	**2016/17**	**2015/16**	**2015/16**
Revenue	–	22.3	94.0
Expenses	–	(14.3)	(57.5)
Earnings before tax	**–**	**8.0**	**36.5**
Tax	–	(1.9)	(7.4)
Earnings for the year discontinued operations	**–**	**6.1**	**29.1**
Gains/losses on sale of assets and businesses	–	–	(39.0)
Tax	–	–	–
Gains/losses on sale of assets and businesses after tax	**–**	**–**	**(39.0)**
Earnings per share of discontinued operations	–	0.1	(2.0)
Diluted earnings per share of discontinued operations	–	0.1	(2.0)
Cash flow from operating activities	–	11.8	52.6
Cash flow used for investing activities	–	(2.8)	13.4
Cash flow from financing activities	–	–	–
Net cash flow from discontinued operations	**–**	**9.0**	**66.0**

(DKK million)	**2016/17**	**2015/16**	**2015/16**
Balance sheet items comprise:			
Development projects	–	37.2	–
Plant and machinery	2.9	0.2	2.9
Other equipment and assets under construction	–	1.1	–
Inventories	–	10.4	–
Trade receivables	–	22.4	–
Other receivables	–	4.1	–
Prepayments	–	1.8	–
Cash	–	0.2	–
Assets held for sale	**2.9**	**77.4**	**2.9**
Trade payables	–	8.5	–
Provisions	–	2.5	–
Corporation tax payable	–	4.5	–
Other liabilities	–	3.4	–
Liabilities associated with assets held for sale	**–**	**18.9**	**–**

APPENDIX 1

Earnings by quarter 2016/17:

	2016/17			
(DKK million)	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	**515.5**			
Production costs	(343.1)			
Gross profit	**172.4**			
Development costs	(75.3)			
Distribution and marketing costs	(163.0)			
Administration costs	(22.7)			
Other operating income, net	–			
Earnings before interest and tax (EBIT)	**(88.7)**			
Share of result after tax in associated companies	–			
Financial income	1.6			
Financial expenses	(0.2)			
Financial items, net	(1.3)			
Earnings before tax (EBT)	**(87.3)**			
Income tax	20.8			
Earnings for the year – continued operations	(66.5)			
Earnings for the year – discontinued operations	–			
Earnings for the year	**(66.5)**			

Accumulated earnings by quarter 2016/17:

	2016/17			
(DKK million)	**3M**	**6M**	**9M**	**12M**
Revenue	**515.5**			
Production costs	(343.1)			
Gross profit	**172.4**			
Development costs	(75.3)			
Distribution and marketing costs	(163.0)			
Administration costs	(22.7)			
Other operating income, net	–			
Earnings before interest and tax (EBIT)	**(8.7)**			
Share of result after tax in associated companies	–			
Financial income	1.6			
Financial expenses	(0.2)			
Financial items, net	(1.3)			
Earnings before tax (EBT)	**(87.3)**			
Income tax	20.8			
Earnings for the year – continued operations	(66.5)			
Earnings for the year – discontinued operations	–			
Earnings for the year	**(66.5)**			

Earnings by quarter 2015/16:

	2015/16			
(DKK million)	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	**506.0**	**728.6**	**702.6**	**696.1**
Production costs	(353.5)	(452.4)	(442.5)	(433.1)
Gross profit	**152.5**	**276.2**	**260.1**	**263.1**
Development costs	(71.5)	(73.9)	(75.5)	(93.9)
Distribution and marketing costs	(166.4)	(216.1)	(160.6)	(197.2)
Administration costs	(20.3)	(19.0)	(21.4)	(43.6)
Other operating income, net	0.9	2.0	2.3	–
Earnings before interest and tax (EBIT)	**(104.7)**	**(30.9)**	**5.0**	**(71.6)**
Share of result after tax in associated companies	–	–	–	(0.4)
Financial income	0.3	9.1	–	–
Financial expenses	(13.8)	(1.7)	(19.3)	(13.5)
Financial items, net	(13.5)	7.4	(19.3)	(13.5)
Earnings before tax (EBT)	**(118.3)**	**(23.3)**	**(14.4)**	**(85.5)**
Income tax	26.1	3.9	3.6	10.2
Earnings for the year – continued operations	(92.2)	(19.5)	(10.7)	(75.4)
Earnings for the year – discontinued operations	6.1	9.0	9.5	(34.5)
Earnings for the year	**(86.1)**	**(10.5)**	**(1.2)**	**(109.8)**

Accumulated earnings by quarter 2015/16:

	2015/16			
(DKK million)	**3M**	**6M**	**9M**	**12M**
Revenue	**506.0**	**1,234.6**	**1,937.2**	**2,633.4**
Production costs	(353.5)	(805.9)	(1,248.4)	(1,681.5)
Gross profit	**152.5**	**428.7**	**688.8**	**951.9**
Development costs	(71.5)	(145.4)	(220.9)	(314.8)
Distribution and marketing costs	(166.4)	(382.5)	(543.1)	(740.3)
Administration costs	(20.3)	(39.3)	(60.7)	(104.3)
Other operating income, net	0.9	2.9	5.2	5.2
Earnings before interest and tax (EBIT)	**(104.7)**	**(135.6)**	**(130.6)**	**(202.2)**
Share of result after tax in associated companies	–	–	–	(0.4)
Financial income	0.3	4.3	3.7	1.6
Financial expenses	(13.8)	(10.4)	(29.1)	(40.5)
Financial items, net	(13.5)	(6.1)	(25.4)	(38.9)
Earnings before tax (EBT)	**(118.3)**	**(141.6)**	**(156.0)**	**(241.6)**
Income tax	26.1	30.0	33.6	43.8
Earnings for the year – continued operations	(92.2)	(111.7)	(122.4)	(197.8)
Earnings for the year – discontinued operations	6.1	15.1	24.6	(9.9)
Earnings for the year	**(86.1)**	**(96.6)**	**(97.8)**	**(207.7)**

APPENDIX 2

Revenue by region 2015/16:

	2015/16			
(DKK million)	**Q1**	**Q2**	**Q3**	**Q4**
Europe	309.5	494.6	464.5	400.1
North America	68.9	48.4	50.6	46.2
Greater China*	64.8	73.7	73.1	81.8
Rest of World	62.8	112.0	114.4	168.0
Total	**506.0**	**728.6**	**702.6**	**696.1**

	2015/16			
(DKK million)	**3M**	**6M**	**9M**	**12M**
Europe	309.5	804.1	1,268.5	1,668.7
North America	68.9	117.3	167.9	214.1
Greater China*	64.8	138.6	211.7	293.5
Rest of World	62.8	174.7	289.1	457.1
Total	**506.0**	**1,234.6**	**1,937.2**	**2,633.4**

* *The Greater China region comprises China, Taiwan and Hong Kong*

2. DIFFERENCES BETWEEN ACCOUNTING POLICIES ADOPTED BY THE GROUP AND THE B&O GROUP

As described in the section entitled "Letter from the Board – Waivers from Strict Compliance with the Listing Rules", the Company has applied to the Stock Exchange for, and been granted, a waiver from the requirement to produce an accountants' report on the B&O Group with Rule 14.67(6)(a)(i) of the Listing Rules.

This circular contains the published accounts (consolidated financial statements) of the B&O Group for each of the three years ended 31 May 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union and audited by Ernst & Young Godkendt Revisionspartnerselskab and the unaudited financial statements of B&O Group for the three months ended 31 August 2016 prepared in accordance with IAS 34, Interim Financial Reporting as adopted by the European Union (together the "B&O Group Published Accounts").

The Directors are of the opinion that the accounting policies adopted in the preparation of the B&O Group Published Accounts do not differ in any material respect from the accounting policies adopted by the Company, which comply with Hong Kong Financial Reporting Standards.

BDO Limited, the Company's auditor, has been engaged by the Company to perform certain procedures which include examining the differences between the B&O Group's accounting policies and the Company's accounting policies. Based on the procedures performed, there would be no material change to the B&O Group Published Accounts had they been prepared in accordance with the accounting policies adopted by the Company, and that the accounting policies adopted by the B&O Group do not differ in material respects from the Company's accounting policies for each of the three years ended 31 May 2016 and the three months ended 31 August 2016.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF B&O

Set out below is the management discussion and analysis of B&O, which is based on the financial information of the B&O as set out in this Appendix II.

General nature of the business

B&O, a company incorporated in Denmark whose shares are listed and traded on NASDAQ Copenhagen A/S, is the manufacturer of audio and visual consumer electronics products. For further information of the general nature of the business, please refer to the paragraphs headed "Information of assets to be acquired" in the Letter from the Board in this circular.

Segment information

B&O currently generates revenue primarily from the manufacture and sale of (i) audio and video products under the brand "Bang & Olufsen" in more than 600 Bang & Olufsen stores around the world; and (ii) "B&O Play" branded headphones and portable audio systems through Bang & Olufsen stores and third party retailers as well as online.

Financial and business performance

Revenue

Set out below is an analysis of B&O's segment revenue:

	For the year ended 31 May			% Change 2014 vs	% Change 2015 vs	For the 3 months ended 31 August		% Change 2015 vs
	2014	2015	2016	2015	2016	2015	2016	2016
Revenue								
– Bang & Olufsen	1,628.0	1,743.0	1,663.2	7.06%	(4.58%)	343.3	286.8	(16.45%)
– B&O PLAY	534.7	613.5	970.2	14.74%	58.14%	162.7	228.7	40.57%
	2,161.7	2,356.5	2,633.4	9.01%	11.75%	506.0	515.5	1.88%

For the three months ended 31 August 2016, revenue of B&O increased from DKK 506.0 million for the three months ended 31 August 2015 to DKK 515.5 million, corresponding to a growth of 1.88%. The Bang & Olufsen segment realised a revenue of DKK 286.8 million, compared to DKK 343.3 million last year, which was a decline of 16.45%. The decline was due to the postponed launch of new TV products. B&O PLAY showed revenue growth of 40.57% due to the newly introduced products such as Beoplay A1 and Beoplay H5 as well as continued expansion of the distribution channels.

For the year ended 31 May 2016, revenue of B&O was DKK 2,633.4 million, which is DKK 276.9 million higher than that for the year ended 31 May 2015. This corresponds to an increase of 11.75%. B&O PLAY showed a strong growth of 58.14% in the financial year, whereas revenue in the Bang & Olufsen segment showed a moderate decline of approximately 5%. The Bang & Olufsen segment generated revenue of DKK 1,663.2 million for the year ended 31 May 2016 against DKK 1,743.0 million for the year ended 31 May 2015 corresponding to a decline of 5% as the fourth quarter resulted in a decline due to lower TV sales. B&O PLAY generated revenue of DKK 970.2 million for the year ended 31 May 2016 against DKK 613.5 million for the year ended 31 May 2015 corresponding to a growth of 58.14%. The growth was driven by new and innovative products, as well as expansion of the distribution channels and a number of new product launches, and the Beoplay H8, Beoplay A2 and Beolit 15 performing well, combined with a significant growth in the number of third party stores.

Revenue of B&O in continuing operations was DKK 2,356.5 million for the year ended 31 May 2015, which is DKK 194.8 million higher than that for the year ended 31 May 2014, corresponding to an increase of 9.01% which was in line with guidance for the year. Both the Bang & Olufsen and the B&O PLAY segments showed growth in the financial year, driven by new and innovative products, and expansion of the distribution, especially within the third party retail. The Bang & Olufsen segment generated revenue of DKK 1,743.0 million for the year ended 31 May 2015 financial year against DKK 1,628.0 million for the year ended 31 May 2014, corresponding to an increase of 7.06%. The first half of the 2014/15 was adversely impacted by ramp up issues related to the launch of the BeoVision Avant, and the knock-on effects on the launch of other products. However, during the second half of the financial year, the growth momentum was regained. B&O PLAY generated revenue of DKK 613.5 million for the year ended 31 May 2015 against DKK 534.7 million for the year ended 31 May 2014 corresponding to a growth of 14.74%. The overall growth in this segment was driven by a series of product launches, where especially the BeoPlay A2 and BeoPlay H8 performed well, as well as a significant growth in the number of third party stores.

Gross profit and gross margin

Gross profit of B&O of approximately DKK172.4 million was recorded for the three months ended 31 August 2016, representing an increase of approximately 13.05% from gross profit of approximately DKK152.5 million for the three months ended 31 August 2015. The gross margin of B&O of approximately 30.14% for the three months ended 31 August 2015 recorded an increase to approximately 33.44% for the three months ended 31 August 2016. The increase was driven by higher volumes and continued supply chain optimisations in the B&O PLAY segment, offset by the decline mainly due to low revenue resulting in a low indirect capacity cost absorption in the quarter in the Bang & Olufsen segment.

Gross profit of B&O of approximately DKK951.9 million was recorded for the year ended 31 May 2016, representing an increase of approximately 64.04% from gross profit of approximately DKK580.3 million for the year ended 31 May 2015. The gross margin of B&O of approximately 24.63% for the year ended 31 May 2015 recorded an increase to approximately 36.15% for the year ended 31 May 2016. The improvement in gross margin is primarily a result of realising the effect of the restructuring of the AV business in the Bang & Olufsen segment announced in March 2015, which reduced the cost base by the company's continuous focus on leveraging technology partnerships and platforms, a streamlined innovations process and ongoing optimisation of the supply-chain and manufacturing footprint, and, therefore, led to a leaner organization and a simplified organizational structure; and the higher volumes and supply chain optimisations in the B&O PLAY segment.

Gross profit of B&O of approximately DKK580.3 million was recorded for the year ended 31 May 2015, representing a decrease of approximately 30.06% from gross profit of approximately DKK829.7 million for the year ended 31 May 2014. The gross margin of B&O of approximately 38.38% for the year ended 31 May 2014 recorded a decrease to approximately 24.63% for the year ended 31 May 2015. The decrease in gross margin was due to non-cash value adjustments of the tangible assets, investment property, inventory, and specific trade receivables of B&O which was resulted from sale of the automotive business by transfering B&O's automotive assets to HARMAN International Industries, Incorporated whilst retaining the ownership of its core intellectual property rights so as to focus on creating a strong, consumer focused business based on the Bang & Olufsen and B&O PLAY brands.

Earnings before interest and tax

Earnings before interest and tax (EBIT) of B&O of negative DKK88.7 million were recorded for the three months ended 31 August 2016, representing an increase of approximately 15.28% from EBIT of approximately negative DKK104.7 million for the three months ended 31 August 2015. The increase was primarily driven by a larger gross profit, smaller distribution and marketing costs and other operating expenses for the three months ended 31 August 2016 compared to that for the three months ended 31 August 2015, which were then partially offset by a larger development costs, administration costs and lower other operating income.

EBIT of B&O of negative DKK202.2 million were recorded for the year ended 31 May 2016, representing an increase of approximately 74.94% from EBIT of approximately negative DKK807.0 million for the year ended 31 May 2015. The increase was primarily driven by a larger gross profit, smaller development costs, distribution and an increase in other operating income for the year ended 31 May 2016 compared to that for the year ended 31 May 2015, which were then partially offset by a larger administration costs and an increased other operating income.

EBIT of B&O of negative DKK807.0 million were recorded for the year ended 31 May 2015, representing a decrease of approximately 209.67% from EBIT of approximately negative DKK260.6 million for the year ended 31 May 2014. Such change was primarily driven by a smaller gross profit, larger development costs, distribution and marketing costs and administration costs for the year ended 31 May 2015 compared to that for the year ended 31 May 2014.

Net financial items

Net financial items of B&O were approximately DKK1.3 million for the three months ended 31 August 2016, representing an increase of approximately 109.63% from approximately negative DKK13.5 million for the three months ended 31 August 2015. Such change in net financial items was mainly related to positive exchange rate adjustments.

Net financial items of B&O were approximately negative DKK38.9 million for the year ended 31 May 2016, representing a decrease of approximately 537.70% from approximately negative DKK6.1 million for the year ended 31 May 2015. Such change in net financial items was mainly related to non-cash exchange rate losses.

Net financial items of B&O were approximately negative DKK6.1 million for the year ended 31 May 2015, representing an increase of approximately 78.89% from approximately negative DKK28.9 million for the year ended 31 May 2014. Such change in net financial items was mainly related to exchange rate gains.

Earnings before tax

Earnings before tax of B&O were approximately negative DKK87.3 million for the three months ended 31 August 2016, representing an increase of approximately 26.20% from approximately negative DKK118.3 million for the three months ended 31 August 2015. The increase in earnings before tax was mainly driven by an improvement in EBIT and an increased in net financial items.

Earnings before tax of B&O were approximately negative DKK241.6 million for the year ended 31 May 2016, representing an increase of approximately 69.90% from approximately negative DKK802.7 million for the year ended 31 May 2015. The increase in earnings before tax was mainly driven by an improvement in EBIT and partly offset by a decrease in net financial items.

Earnings before tax of B&O were approximately negative DKK802.7 million for the year ended 31 May 2015, representing a decrease of approximately 180.27% from approximately negative DKK286.4 million for the year ended 31 May 2014. The decrease in earnings before tax was mainly driven by a drop in EBIT and partly offset by an increase in net financial items.

Liquidity, financial resources and capital structure

B&O meets its funding needs with cash generated from its operating activities, borrowings from financial institutions and funds raised from issuing shares.

Cash and Cash Equivalents

As at 31 May 2014, 2015 and 2016 and 31 August 2016, B&O had cash and cash equivalents of approximately DKK 120.4 million, DKK 1,198.0 million, DKK 788.5 million and DKK 750.7 million respectively.

Loans

As at 31 May 2014, 2015 and 2016 and 31 August 2016, B&O had mortgage loans, loans from banks and overdraft facilities with total amounts of approximately DKK 494.5 million, DKK 409.5 million, DKK 189.6 million and DKK 185.8 million respectively.

Gearing ratio

As at 31 May 2014, 2015 and 2016 and 31 August 2016, the debt-to-equity ratio of B&O were 30.82%, 21.31%, 10.99% and 11.23% respectively.

Financial position

The consolidated total assets of B&O were approximately DKK2,748.8 million as at 31 August 2016, approximately DKK2,831.8 million as at 31 May 2016, approximately DKK3,449.0 million as at 31 May 2015 and approximately DKK2,892.1 million as at 31 May 2014.

The consolidated total liabilities of B&O were approximately DKK1,093.9 million as at 31 August 2016, approximately DKK1,106.9 million as at 31 May 2016, approximately DKK1,527.6 million as at 31 May 2015 and approximately DKK1,287.8 million as at 31 May 2014.

Charges on assets

As at 31 May 2014, 2015 and 2016, B&O's mortgage loans were secured by pledge of B&O's land and buildings and investment property with a carrying amount of approximately DKK147.3 million, approximately DKK113.1 million and approximately DKK105.9 million respectively.

Contingent liability

B&O had no significant contingent liabilities as at 31 May 2014, 2015 and 2016.

Capital commitments

As at 31 May 2014, 2015 and 2016, B&O had operating lease commitments of DKK411.5 million, DKK442.8 million and DKK312.1 million, respectively, saved from the operating lease commitments above, B&O did not have capital commitments.

Foreign exchange risk

For the year ended 31 May 2014, 2015 and 2016, approximately 91%, 90% and 91% of B&O's turnover was in foreign currency respectively. The Group's foreign exchange rate risks are managed centrally by the parent company's finance department based on a foreign exchange rate policy approved by the Board of Directors, under which up to 75% of the expected net cash flows in selected currencies are covered. B&O employed forward contracts for currency hedging.

Significant investments

There were no material financial investments held by B&O during the financial years ended 31 May 2014, 2015 and 2016 and three months ended 31 August 2016.

Material acquisitions and disposals of subsidiaries

On 31 March 2015, B&O entered into a license agreement with Harman International Industries, Incorporated. Pursuant to the license agreement, B&O's automotive assets would be transferred to Harman International whilst B&O retained ownership of its core intellectual property rights. Upon completion of the transaction, Harman International held an exclusive license to the Bang & Olufsen and B&O PLAY brands within the automotive industry.

The consideration of the transaction amounted to DKK1,170 million. Pursuant to the license agreement, B&O will be entitled to receive a per unit license payment from Harman International for each system sold to new brand partners.

Employee information

B&O had an average number of employees of 2,026, 2,070 and 1,847 as at 31 May 2014, 2015 and 2016 respectively. The total staff costs of B&O for the three years ended 31 May 2014, 2015 and 2016 were approximately DKK730.5 million, DKK824.1 million and DKK723.5 million respectively.

Employees are an essential part of B&O's success and continued development. B&O took steps to build stronger competencies and processes as well as strengthen general management capabilities, continue to focus on optimising the global footprint and create a smaller, less complex organisation.

1. ACCOUNTANT'S REPORT

The following is the text of a report received from the Company's reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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25 November 2016

The Board of Directors

Sparkle Roll Group Limited

Dear Sirs,

We set out below our report on the financial information of Balanorm Beo (Beijing) Trading Development Limited*(衡准寶聲(北京)貿易發展有限公司) (the "Target") comprising the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Target for each of the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016 (the "Relevant Periods") and the statements of financial position of the Target as at 31 March 2014, 2015 and 2016 and 30 September 2016, together with explanatory notes thereto (the "Financial Information"), and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Target for the six months ended 30 September 2015 (the "Comparative Financial Information"), for inclusion in the circular issued by Sparkle Roll Group Limited (the "Company") dated 25 November 2016 (the "Circular") in connection with the Company's proposed acquisition of the remaining 49% equity interest in the Target.

The Target was established in the People's Republic of China (the "PRC") as a limited liability company on 22 May 2008. As of the date of this report, no statutory financial statements have been prepared for the Target as the Target is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of establishment. The Target has adopted 31 March as its financial year end date.

* *The English name represents management's best effort at translating its Chinese name as no official English name has been registered*

For the purpose of this report, the directors of the Target have prepared the financial statements for the Relevant Periods (the "Underlying Financial Statements") on the basis of preparation set out in note 2 of Section II below in accordance with the accounting policies set out in note 4 of Section II below which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements, the Financial Information and the Comparative Financial Information in accordance with the basis of preparation set out in note 2 of Section II below, the accounting policies set out in note 4 of Section II below and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and for such internal control as the directors of the Target determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANT'S RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Comparative Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and have examined and carried out appropriate procedures on the Financial Information in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have also performed a review of the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Comparative Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an opinion on the Comparative Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information prepared on the basis of preparation set out in note 2 of Section II below and in accordance with the accounting policies set out in note 4 of Section II below gives a true and fair view of the financial position of the Target as at 31 March 2014, 2015 and 2016 and 30 September 2016 and of the financial performance and cash flows of the Target for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE COMPARATIVE FINANCIAL INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Years ended 31 March			Six months ended 30 September	
		2014	2015	2016	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	*6*	17,159	22,890	40,568	17,695	26,637
Cost of sales		(13,450)	(17,279)	(28,235)	(12,396)	(18,730)
Gross profit		3,709	5,611	12,333	5,299	7,907
Other income	*7*	13	31	26	12	11
Selling and distribution costs		(6,253)	(9,479)	(12,890)	(5,683)	(7,116)
Administrative expenses		(172)	(71)	(159)	(82)	(125)
(Loss)/profit before income tax	*8*	(2,703)	(3,908)	(690)	(454)	677
Income tax expense	*9*	–	–	–	–	–
(Loss)/profit for the year/period and total comprehensive income for the year/period attributable to owners of the Target		(2,703)	(3,908)	(690)	(454)	677

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 March 2014 RMB'000	As at 31 March 2015 RMB'000	As at 31 March 2016 RMB'000	As at 30 September 2016 RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	*11*	84	75	56	46
Current assets					
Inventories	*12*	19,528	27,047	30,105	29,314
Trade and other receivables	*13*	11,566	9,646	10,679	11,767
Deposits and prepayments	*14*	12,441	4,580	3,803	2,216
Amount due from a fellow subsidiary	*17*	113	10,000	–	–
Cash at banks and in hand	*15*	5,110	2,060	7,432	4,672
		48,758	53,333	52,019	47,969
Current liabilities					
Trade and other payables	*16*	1,651	10,125	9,241	4,745
Amount due to a fellow subsidiary	*17*	–	–	241	–
		1,651	10,125	9,482	4,745
Net current assets		47,107	43,208	42,537	43,224
Net assets		47,191	43,283	42,593	43,270
EQUITY					
Paid-up capital	*18*	50,000	50,000	50,000	50,000
Accumulated losses		(2,809)	(6,717)	(7,407)	(6,730)
Total equity		47,191	43,283	42,593	43,270

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 April 2013	50,000	(106)	49,894
Loss and total comprehensive income for the year	–	(2,703)	(2,703)
At 31 March 2014 and 1 April 2014	50,000	(2,809)	47,191
Loss and total comprehensive income for the year	–	(3,908)	(3,908)
At 31 March 2015 and 1 April 2015	50,000	(6,717)	43,283
Loss and total comprehensive income for the year	–	(690)	(690)
At 31 March 2016 and 1 April 2016	50,000	(7,407)	42,593
Profit and total comprehensive income for the period	–	677	677
At 30 September 2016	50,000	(6,730)	43,270
At 1 April 2015	50,000	(6,717)	43,283
Loss and total comprehensive income for the period	–	(454)	(454)
At 30 September 2015 (unaudited)	50,000	(7,171)	42,829

STATEMENTS OF CASH FLOWS

	Notes	Years ended 31 March 2014 RMB'000	2015 RMB'000	2016 RMB'000	Six months ended 30 September 2015 RMB'000 (unaudited)	2016 RMB'000
Cash flows from operating activities						
(Loss)/profit before income tax		(2,703)	(3,908)	(690)	(454)	677
Adjustments for:						
Interest income	7	(13)	(31)	(26)	(12)	(11)
Depreciation of property, plant and equipment	8	9	19	19	10	10
Write-down of inventories	8	–	–	351	–	539
Operating (loss)/profit before working capital changes		(2,707)	(3,920)	(346)	(456)	1,215
(Increase)/decrease in inventories		(19,528)	(7,519)	(3,409)	357	252
(Increase)/decrease in trade and other receivables		(11,566)	1,920	(1,033)	2,172	(1,088)
(Increase)/decrease in deposits and prepayments		(11,901)	7,861	777	(1,521)	1,587
(Increase)/decrease in amount due from a fellow subsidiary		(113)	113	–	–	–
Increase/(decrease) in trade and other payables		1,651	8,474	(884)	(4,386)	(4,496)
Increase/(decrease) in amount due to a fellow subsidiary		–	–	241	–	(241)
Cash (used in)/generated from operations		(44,164)	6,929	(4,654)	(3,834)	(2,771)
Income tax paid		–	–	–	–	–
Net cash (used in)/generated from operating activities		(44,164)	6,929	(4,654)	(3,834)	(2,771)
Cash flows from investing activities						
Interest received		13	31	26	12	11
Proceeds from disposal of available-for-sale investment		2,550	–	–	–	–
Purchases of property, plant and equipment		(93)	(10)	–	–	–
Repayment from/(advances to) fellow subsidiaries		46,650	(10,000)	10,000	10,000	–
Net cash generated from/(used in) investing activities		49,120	(9,979)	10,026	10,012	11
Net increase/(decrease) in cash and cash equivalents		4,956	(3,050)	5,372	6,178	(2,760)
Cash and cash equivalents at beginning of year/period		154	5,110	2,060	2,060	7,432
Cash and cash equivalents at end of year/period, represented by cash at banks and on hand		5,110	2,060	7,432	8,238	4,672

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

The Target was established in the PRC on 22 May 2008 with limited liability. The registered office of business of the Target is located at Rooms 2401-13, Block 1, 18 Jianguo Mennei Street, Dongcheng District, Beijing, the PRC. The principal place of business of the Target is Ground Floor, No. 89 Jianguo Road, Chaoyang District, Beijing, the PRC.

The principal activity of the Target is the sale and distribution of audio and visual consumer electronics products in Mainland China.

In the opinion of the directors of the Target, the ultimate parent of the Target is Sparkle Roll Group Limited, which is incorporated in Bermuda and is listed on The Stock Exchange of Hong Kong Limited.

2. Basis of preparation

The Financial Information has been prepared in accordance with the accounting policies set out in note 4 below, which conform to HKFRSs (which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Financial Information also complies with the applicable disclosure requirements of the Listing Rules.

The Financial Information has been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 5 below.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Target and all values are rounded to the nearest thousand except when otherwise indicated.

3. Impact of issued but not yet effective Hong Kong Financial Reporting Standards

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Target has adopted all HKFRSs issued by the HKICPA which are effective for annual period beginning on 1 April 2016 consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised HKFRSs that have been issued but are not yet effective and are potentially relevant to the Target, and have not been early adopted by the Target.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

[1] *Effective for annual periods beginning on or after 1 January 2017*

[2] *Effective for annual periods beginning on or after 1 January 2018*

[3] *Effective for annual periods beginning on or after 1 January 2019*

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 (2014) retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Target will apply the above new and revised HKFRSs when they become effective. The Target is in the process of making an assessment of the impact of the above new and revised HKFRSs. Except as described above, the directors of the Target do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Target's financial statements.

4. Summary of significant accounting policies

4.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their estimated residual values over their estimated useful lives, using the straight-line method, as follows:

Furniture and equipment	5 years

The assets' estimated residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target and the cost of the item can be measured reliably.

All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

4.2 Financial assets

The Target classifies its financial assets at initial recognition, depending on the purpose for which the financial assets were acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

All financial assets are recognised when, and only when, the Target becomes a party to the contractual provisions of the instruments.

Derecognition of financial assets occurs when the contractual rights to receive cash flows in relation to the financial asset expire or are transferred and substantially all of the risks and rewards of ownership have been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequently to initial recognition, they are carried at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Available-for-sale financial investments

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

Impairment of financial assets

At the end of each reporting period, financial assets other than financial assets at FVTPL are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Target about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Financial assets other than trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Target is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Available-for-sale financial investments

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss. For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

4.3 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

4.4 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand and demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.5 Financial liabilities

The Target's financial liabilities include trade and other payables and amount due to a fellow subsidiary.

Financial liabilities are recognised when the Target becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

The financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

4.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4.7 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.8 Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing.

All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.9 Revenue recognition

Revenue comprises the fair value of the consideration received and receivable for the sale of goods, rendering of services and the use by others of the Target's assets yielding interest and dividends, net of returns and discounts. Provided it is probable that the economic benefits will flow to the Target and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sale of goods is recognised upon transfer of the significant risks and rewards of ownership to customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

4.10 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans. The Target is required to participate in a central pension scheme operated by the local municipal government. The Target is required to contribute a percentage of their payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Target's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of each of the Relevant Periods.

4.11 Income taxes

Income taxes comprise current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the end of the reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Target has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Target presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

4.12 Related parties

(a) A person or a close member of that person's family is related to the Target if that person:

(i) has control or joint control over the Target;

(ii) has significant influence over the Target; or

(iii) is a member of key management personnel of the Target or the Target's parent.

(b) An entity is related to the Target if any of the following conditions apply:

(i) The entity and the Target are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target or an entity related to the Target.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target or to the Target's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of receivables

The policy for making allowance for impairment of receivables of the Target is based on the evaluation of collectability and ageing analysis of the receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer/debtor. If the financial conditions of the customers/debtors of the Target deteriorate thus resulting in impairment as to their ability to make payments, additional allowance for impairment may be required.

If the financial conditions of the customers/debtors of the Target, on whose account allowance for impairment has been made, were improved and no impairment of their ability to make payments were noted, reversal of allowance for impairment may be required.

(ii) Provision for inventories

The management reviews the inventories at the end of each reporting period, and makes allowance for impairment of obsolete, slow-moving and impaired items.

The management estimates the net realisable value for such inventories based primarily on the expected future market conditions and the estimated selling price.

The Target makes allowance for impairment if the net realisable value is below the carrying amount.

(iii) Provision for tax

The Target is mainly subject to various taxes in Mainland China including enterprise income tax, value-added tax ("VAT") and other surtaxes.

Significant judgement is required in interpreting the relevant tax rules and regulations and determining the amount of the provision for taxes and the timing of payment of related taxes. There could have transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Target recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. Revenue and segment information

The Target's revenue and contribution to results are mainly derived from the sale and distribution of audio and visual consumer electronics products, which is regarded as a single reportable segment in a manner consistent with the way in which information, including monthly sales and delivery reports, is reported internally to the Target's senior management (i.e. the directors) for purposes of resources arrangement and performance assessment. Accordingly, no segment analysis is presented.

Since all of the Target's revenue and operating results were derived in Mainland China and all of its non-current assets are located in Mainland China, no geographical information is presented.

The Target did not have a concentration or reliance on any single customer during the Relevant Periods.

7. Other income

	Years ended 31 March			Six months ended 30 September	
	2014	**2015**	**2016**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Bank interest income	13	31	26	12	11

8. (Loss)/profit before income tax

	Years ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss)/profit before income tax is arrived after charging:					
Cost of inventories recognised as expense, including	13,450	17,279	28,235	12,396	18,730
– Write-down of inventories	–	–	351	–	539
Depreciation of property, plant and equipment	9	19	19	10	10
Operating lease payments in respect of rented premises	402	488	733	262	588
Employee benefit expense (including directors' emoluments *(note 10(a))*)					
– Salaries and bonuses	2,172	2,785	3,697	1,504	1,792
– Retirement benefit scheme contributions	299	478	489	221	345
Total employee costs	2,471	3,263	4,186	1,725	2,137

9. Income tax expense

The Target was subject to the PRC Enterprise Income Tax ("EIT") at the rate of 25% based on the estimated assessable profits for the Relevant Periods under the existing legislation, interpretations and practices in respect thereof.

A reconciliation of income tax expense and accounting loss/profit at applicable tax rate is as follows:

	Years ended 31 March			Six months ended 30 September	
	2014	**2015**	**2016**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss)/profit before income tax	(2,703)	(3,908)	(690)	(454)	677
Tax calculated at the PRC EIT rate of 25%	(676)	(977)	(172)	(114)	169
Effect of non-deductible expenses	–	98	192	110	78
Effect of temporary differences not recognised	–	–	88	–	135
Effect of tax losses not recognised	676	879	–	4	–
Utilisation of tax losses previously not recognised	–	–	(108)	–	(382)
Income tax expense	–	–	–	–	–

The Target has deductible temporary differences of approximately RMB351,000 and RMB890,000 mainly arising from write-down of inventories as at 31 March 2016 and 30 September 2016, respectively. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is unpredictable whether taxable profit will be available against which the deductible temporary differences can be utilised.

The Target has estimated unused tax losses available for offset against future taxable profits of approximately RMB2,818,000, RMB6,333,000, RMB5,902,000 and RMB4,374,000 at 31 March 2014, 2015 and 2016 and 30 September 2016, respectively. No deferred tax asset has been recognised due to the unpredictability of future profit streams of the Target. These estimated unused tax losses will be expired if they are not utilised to set off against the taxable profits within five years from the year in which they arose under the current tax legislation in Mainland China.

10. Directors' emoluments and five highest paid individuals

(a) Directors' emoluments

The directors of the Target during the Relevant Periods are Mr. Zhao Xiao Dong (appointed with effect from 22 May 2008), Mr. Qi Jian Hong (appointed with effect from 22 May 2008), Mr. Chen Ling (appointed with effect from 30 June 2016) and Mr. Chen Qiang (appointed with effect from 22 May 2008 and resigned with effect from 30 June 2016). Other than the emoluments paid to Mr. Chen Ling during the six months ended 30 September 2016 as set out in the table below, no emolument was paid or payable to any of the directors during the Relevant Periods.

	Years ended 31 March			Six months ended 30 September	
	2014	**2015**	**2016**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, allowances and benefits in kind	–	–	–	–	24
Retirement benefit scheme contributions	–	–	–	–	5
	–	–	–	–	29

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target for the Relevant Periods did not include any director of the Target. The emoluments payable to the five highest paid individuals for the Relevant Periods, whose emoluments fell within the band of nil to HKD1,000,000, are as follows:

	Years ended 31 March			Six months ended 30 September	
	2014	**2015**	**2016**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, allowances and other benefits in kind	279	317	250	124	157
Retirement benefit scheme contributions	56	63	50	25	30
	335	380	300	149	187

During the Relevant Periods, no emolument was paid by the Target to the directors and the five highest paid individuals as an inducement to join or upon joining the Target, or as compensation for loss of office.

11. Property, plant and equipment

	Furniture and equipment			
	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period				
Cost	–	93	103	103
Accumulated depreciation	–	(9)	(28)	(47)
Net book amount	–	84	75	56
For the year/period				
Opening net book amount	–	84	75	56
Additions	93	10	–	–
Depreciation	(9)	(19)	(19)	(10)
Closing net book amount	84	75	56	46
At end of year/period				
Cost	93	103	103	103
Accumulated depreciation	(9)	(28)	(47)	(57)
Net book amount	84	75	56	46

12. Inventories

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Merchandised goods	19,528	27,047	30,105	29,314

13. Trade and other receivables

The Target's trading terms with its retail customers are mainly made in cash or by credit card, whereas the trading terms with other customers are generally one to two months. Payment in advance is normally required for wholesale customers.

Ageing analysis of trade and other receivables as at the end of each of the Relevant Periods, based on the invoice dates, is as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	1,075	1,910	2,192	4,625
31 to 120 days	9,063	3,606	5,106	3,543
121 to 365 days	1,428	4,096	3,136	2,637
Over 365 days	–	34	245	962
	11,566	9,646	10,679	11,767

At the end of each of the Relevant Periods, the Target reviews receivables for evidence of impairment on both an individual and collective basis. No impairment loss on trade and other receivables was recognised during the Relevant Periods. Ageing analysis of trade and other receivables that were not individually nor collectively considered to be impaired is as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	1,952	4,000	3,751	6,004
Not more than 1 year past due	9,614	5,644	6,745	5,030
Over 1 year past due	–	2	183	733
	11,566	9,646	10,679	11,767

Trade and other receivables that were neither past due nor impaired related to customers from whom there was no recent history of default.

Trade and other receivables that were past due but not impaired relate to customers with good financial background. The directors of the Target are of the opinion that no provision for impairment is necessary in respect of these balances as there has been no recent history of default.

14. Deposits and prepayments

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	408	469	692	1,092
Prepayments	9,227	972	1,469	821
VAT recoverable	2,806	3,139	1,642	303
	12,441	4,580	3,803	2,216

15. Cash at bank and in hand

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Target's cash and bank balances are denominated in RMB. RMB is not a freely convertible currency. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Target is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

16. Trade and other payables

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	9,046	7,767	2,442
Receipts in advance from customers	1,190	703	688	1,451
Accrued charges and other payables	461	376	786	852
	1,651	10,125	9,241	4,745

Trade payables are non-interest bearing and the credit period is 60 days.

Ageing analysis of trade payables as at the end of each of the Relevant Periods, based on the invoice dates, is as follows:

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	–	2,354	5,585	2,442
31 to 60 days	–	795	415	–
61 to 90 days	–	2,610	1,767	–
Over 90 days	–	3,287	–	–
	–	9,046	7,767	2,442

17. Balances with fellow subsidiaries

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from a fellow subsidiary				
Beijing Mei He Zhen Yong Motors Trading Limited (北京美合振永汽車貿易有限公司)	–	10,000	–	–
Sparkle Roll Oriental (Beijing) Trading Development Limited ("SROBJ") (耀萊東方(北京)貿易發展有限公司)	113	–	–	–
	113	10,000	–	–
Amount due to a fellow subsidiary				
SROBJ	–	–	241	–

The balances are unsecured, interest-free and repayable on demand.

18. Paid-up capital

Registered and paid-up capital:	*RMB'000*
At 1 April 2013, 31 March 2014, 31 March 2015, 31 March 2016 and 30 September 2016	50,000

19. Related party transactions

In addition to the transactions disclosed elsewhere in this report, the following transactions were carried out by the Target with related parties during the Relevant Periods.

(i) Related party transactions

	Years ended 31 March			Six months ended 30 September	
	2014	**2015**	**2016**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchase of goods from SROBJ	25,215	2,791	–	–	–
Disposal of available-for-sale investment to a fellow subsidiary *(note)*	2,550	–	–	–	–

Note:

The available-for-sale investment represents an unlisted equity investment.

The above related party transactions were carried out in the normal course of business and at terms mutually negotiated between the Target and respective related party.

(ii) Key management personnel compensation

The directors are regarded as the key management personnel of the Target. The compensation paid or payable to key management for employee services is disclosed in note 10(a).

20. Commitments

(a) Capital commitments

The Target has no capital commitment as at the end of each of the Relevant Periods.

(b) Operating leases commitments

As lessee

The Target leases a number of warehouse and retail shops under operating leases. The leases run for an initial period of two to three years. The actual payments in respect of certain operating leases are calculated at the higher of the minimum commitments as noted in the table below and the amounts determined based on a percentage of the sales of the related retail shops.

At the end of each reporting period, the Target has future minimum rental payable under non-cancellable operating lease falling due as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	351	430	900	1,345
In the second to fifth years, inclusive	–	394	771	1,068
	351	824	1,671	2,413

21. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the respective reporting dates are as follows:

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables				
– Trade and other receivables	11,566	9,646	10,679	11,767
– Deposits	408	469	692	1,092
– Amount due from a fellow subsidiary	113	10,000	–	–
– Cash at banks and in hand	5,110	2,060	7,432	4,672
	17,197	22,175	18,803	17,531
Financial liabilities				
At amortised cost				
– Trade and other payables and accrued charges	461	9,422	8,553	3,294
– Amount due to a fellow subsidiary	–	–	241	–
	461	9,422	8,794	3,294

22. Financial risk management and fair value measurements

The Target is exposed to a variety of financial risks in its ordinary course of operations. The financial risks include market risk (mainly foreign currency risk and interest rate risk), credit risk and liquidity risk. The directors of the Target meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks on a timely and effective manner. The most significant risks to which the Target is exposed to are described below.

(a) Foreign currency risk

The Target has no significant foreign currency risk as its business transactions, recognised assets and liabilities are principally denominated in RMB, its functional currency. Accordingly, sensitivity analysis has not been disclosed. The Target currently does not have any hedge instruments to hedge against other foreign currency transactions.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Target's exposure to the risk of changes in market interest rates relates primarily to bank deposits which were bearing floating interest rate.

Except for the cash held at banks, the Target has no other significant interest bearing assets. The Target's income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 March 2014, 2015 and 2016 and 30 September 2016, if interest rates on cash held at banks had been 25 basis points higher/lower with all other variables held constant, the Target's results for the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2016 would have been approximately RMB13,000, RMB5,000, RMB19,000 and RMB12,000 higher/lower, mainly as a result of higher/lower interest income on cash at banks.

The Target's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no undue exposures to significant interest rate movements and rates are approximately fixed when necessary. The Target has not used any financial instruments to hedge potential fluctuations in interest rates.

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Target. The Target's exposure to credit risk mainly arises from granting credit to its customers and other counterparties in the ordinary course of its operation.

The Target trades mainly with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Target's exposure to bad debts is not significant. Further detailed exposure to credit risk on trade and other receivables of the Target is disclosed in note 13.

All the Target's bank balances are deposited with major banks located in Mainland China. None of the financial assets of the Target are secured by collateral or other credit enhancements.

There are no significant concentrations of credit risk within the Target as at the end of each of the Relevant Periods. The Target's concentration of credit risk by geographical locations is mainly in Mainland China as at the end of each of the Relevant Periods.

(d) Liquidity risk

The Target is exposed to liquidity risk in respect of settlement of trade payables and also in respect of its cash flow management. The cash management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Target's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from related parties or major financial institutions to meet its liquidity requirements in the short and longer terms.

The tables below analyses the Target's financial liabilities into relevant maturity grouping based on the remaining contractual maturities at the reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Carrying amount	Total contractual undiscounted cash flow	On demand or less than one year
	RMB'000	*RMB'000*	*RMB'000*
At 31 March 2014			
– Trade and other payables and accrued charges	461	461	461
At 31 March 2015			
– Trade and other payables and accrued charges	9,422	9,422	9,422
At 31 March 2016			
– Trade and other payables and accrued charges	8,553	8,553	8,553
– Amount due to a fellow subsidiary	241	241	241
	8,794	8,794	8,794
At 30 September 2016			
– Trade and other payables and accrued charges	3,294	3,294	3,294

(e) Fair value measurements

The fair values of trade and other receivables, deposits, amount due from a fellow subsidiary, cash at bank and in hand, trade payables, accrued charges and other payables and amount due to a fellow subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

23. Capital management

The primary objective of the Target's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Target manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Target may adjust the dividend payment to shareholders or increase paid-up capital. No changes were made in the objectives, policies or processes during the Relevant Periods.

24. Events after the reporting period

There are no material subsequent events undertaken by the Target after 30 September 2016.

25. Subsequent financial statements

No audited financial statements have been prepared by the Target in respect of any period subsequent to 30 September 2016.

Yours faithfully,

BDO Limited
Certified Public Accountants
Lui Chi Kin
Practising Certificate Number P06162
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the PRC JV, which is based on the financial information of the PRC JV as set out in this Appendix III:

General nature of the business

The PRC JV is an equity joint venture formed by the Company and Mr. Qi. The Company and Mr. Qi indirectly own 51% and 49% of the entire paid-up capital in the PRC JV respectively. The PRC JV was appointed as a non-exclusive retailer of "B&O PLAY" branded audio and visual consumer electronics products in the PRC in January 2013. As at the Latest Practicable Date, the PRC JV have 21 POS and 3 online stores under operations.

Revenue

The PRC JV currently generates revenue primarily from the sale of audio equipment.

Period to period comparisons

(i) Comparison for the six months ended 30 September 2016 to the six months ended 30 September 2015

For the six months ended 30 September 2016, the PRC JV recorded revenue of approximately RMB26.6 million, representing an increase of 50.3% as compared with that of approximately RMB17.7 million for the six months ended 30 September 2015. Such increase was primarily due to the increase in sales generated from points-of-sales and e-commerce of approximately 60% and 1.6 times respectively.

Gross profit increased from approximately RMB5.3 million for the six months ended 30 September 2015 to approximately RMB7.9 million for the six months ended 30 September 2016 due to the increase in sales generated from e-commerce. The gross margin as a percentage of sales was slightly decreased from 29.9% for the six months ended 30 September 2015 to 29.7% for 2016.

Net profit after taxation of the PRC JV for the six months ended 30 September 2016 was approximately RMB677,000, as compared with net loss after taxation of the PRC JV of approximately RMB454,000 for the six months ended 30 September 2015 principally due to an increase in sales volume.

The brands under the other segment of the Group include fine wine, audio equipment, menswear apparel and accessories and cigars and smoker's accessories. B&O performed the best in terms of revenue contribution, attributable to both sales from our points-of-sale and e-commerce sales of B&O PLAY for the six months ended 30 September 2016.

(ii) Comparison for the year ended 31 March 2016 to the year ended 31 March 2015

For the year ended 31 March 2016, the PRC JV recorded revenue of approximately RMB40.6 million, representing an increase of 77.3% as compared with that of approximately RMB22.9 million for the year ended 31 March 2015. Such increase was primarily due to the increase in sales generated from points-of-sales and e-commerce of approximately 66% and 2.7 times respectively.

Gross profit increased from approximately RMB5.6 million for the year ended 31 March 2015 to approximately RMB12.3 million for the year ended 31 March 2016 due to increase in sales generated from e-commerce. The increase in gross profit margin as a percentage of sales from 24.5% for the year ended 31 March 2015 to 30.4% for 2016 resulted from the increase in average selling price.

Net loss after taxation of the PRC JV for the year ended 31 March 2016 was approximately RMB0.7 million as compared with net loss after taxation of the PRC JV of approximately RMB3.9 million for the year ended 31 March 2015 principally due to a significant increase in gross profit combined with a reduction in marketing expenses, partially offset by a significant increase in transportation costs arising from increase in sales generated from e-commerce.

The brands under the other segment of the Group include fine wine, audio equipment, menswear apparel and accessories and cigars and smoker's accessories. B&O performed the best in terms of revenue contribution, particularly attributable to e-commerce sales of B&O PLAY for the year ended 31 March 2016.

(iii) Comparison for the year ended 31 March 2015 to the year ended 31 March 2014

For the year ended 31 March 2015, the PRC JV recorded revenue of approximately RMB22.9 million, representing an increase of 33.1% as compared with that of approximately RMB17.2 million for the year ended 31 March 2014. Such increase was primarily due to the increase in sales generated from e-commerce of approximately 4.1 times.

Gross profit increased from approximately RMB3.7 million for the year ended 31 March 2014 to approximately RMB5.6 million for the year ended 31 March 2015 due to the increase in sales generated from e-commerce and wholesales. The increase in gross margin as a percentage of sales from 21.5% for the year ended 31 March 2014 to 24.5% for 2015 results from a significant increase in sales generated from e-commerce, partially offset by a significant increase in wholesales with a relatively lower gross profit margin.

Net loss after taxation of the PRC JV for the year ended 31 March 2015 was approximately RMB3.9 million, as compared with the net loss after taxation of approximately RMB2.7 million for the year ended 31 March 2014. The increase was principally due to the increase in marketing expenses and transportation costs arising from the increase in sales generated from e-commerce.

The brand had a satisfactory performance in the Group for the years ended 31 March 2015 and 2014.

(iv) For the year ended 31 March 2014

For the year ended 31 March 2014, the PRC JV recorded revenue of approximately RMB17.2 million. The gross profit was approximately RMB3.7 million at a gross margin was 21.5%. The PRC JV incurred a net loss of approximately RMB2.7 million. The business was commenced in September 2013.

Borrowing, financing and gearing ratio

The PRC JV's source of funding comprised the shareholder's capital injection.

The PRC JV had no debt as at 31 March 2014, 2015 and 2016 and 30 September 2016.

Financial position

Total assets of the PRC JV were RMB48.8 million as at 31 March 2014, RMB53.3 million as at 31 March 2015, RMB52.0 million as at 31 March 2016 and RMB48.0 million as at 30 September 2016. The increase in total assets from 2014 to 2015 was primarily due to the increase in inventories. The slight decrease in total assets from 2015 to 2016 was primarily due to the increase in inventories and cash at bank but offset by the decrease in amount due from a fellow subsidiary. The decrease in total assets from 31 March 2016 to 30 September 2016 was primarily due to the decrease in cash at bank.

Total assets of the PRC JV mainly comprised inventories amounted to RMB19.5 million as at 31 March 2014, RMB27.0 million as at 31 March 2015, RMB30.1 million as at 31 March 2016 and RMB29.3 million as at 30 September 2016.

Total liabilities of the PRC JV were RMB1.7 million as at 31 March 2014, RMB10.1 million as at 31 March 2015, RMB9.5 million as at 31 March 2016 and RMB4.7 million as at 30 September 2016. The increase in total liabilities from 2014 to 2015 was primarily due to the increase in trade payable arising from purchase of goods for sales. The slight decrease in total liabilities from 2015 to 2016 was primarily due to the decrease in trade payables. The increase in total liabilities from 31 March 2016 to 30 September 2016 was primarily due to the decrease in trade payables.

Capital structure

The PRC JV's primary source of funding was shareholder's loan which was denominated in RMB.

Charges on assets

The PRC JV had no charge on assets as at 31 March 2014, 2015 and 2016 and 30 September 2016.

Contingent liability

The PRC JV had no significant contingent liabilities as at 31 March 2014, 2015 and 2016 and 30 September 2016.

Capital commitments

The PRC JV did not have capital commitments as at 31 March 2014, 2015 and 2016 and 30 September 2016.

Foreign exchange risk

The PRC JV conducted its business primarily in RMB while the purchase transactions were in RMB. For the three years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016, the PRC JV did not record any gain or loss on foreign exchange. The PRC JV did not undertake any financial instruments for hedging purposes.

Significant investments held, their performance and their future prospects

There was no material financial investments held by the PRC JV during the three years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016.

Remuneration and remuneration policies of the directors and employees of the PRC JV

The PRC JV had 73, 76, 82 and 93 employees as at 31 March 2014, 2015 and 2016, and 30 September 2016 respectively. The remuneration policy of the PRC JV reflected prevailing market practice.

The total staff costs of the PRC JV for the three years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016 were RMB2.5 million, RMB3.3 million, RMB4.2 million and RMB2.1 million respectively.

Directors and senior management of the PRC JV will be retained in the PRC JV upon the Completion.

The following unaudited pro forma statement of assets and liabilities of the Group (the "Unaudited Pro Forma Financial Information") has been prepared on the basis of notes set out below for the purposes of illustrating the effects on the assets and liabilities of the Group as if the Acquisition had been completed on 30 September 2016.

The Unaudited Pro Forma Financial Information of the Group as at 30 September 2016 has been prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2016 as set out in its published interim results announcement for the six months ended 30 September 2016; (ii) the pro forma adjustments prepared to reflect the effects of the Acquisition as explained in the notes set out below that are directly attributable to the Acquisition and not relating to future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information of the Group as set out in its published interim results announcement for the six months ended 30 September 2016, and other financial information contained in this circular.

The Unaudited Pro Forma Financial Information of the Group has been compiled by the directors of the Company (the "Directors") for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information of the Group may not give a true picture of the financial position of the Group had the Acquisition been completed as at 30 September 2016 or any future date.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP AS AT 30 SEPTEMBER 2016

	The Group *HK$'000* *(Note 1)*	Pro forma adjustments *HK$'000* *(Note 2)*	*HK$'000* *(Note 4)*	The Group after the Acquisition *HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	95,698			95,698
Goodwill	206,171			206,171
Investment in an associate	–	724,747	5,200	729,947
Other intangible asset	511			511
Rental deposits paid to a related party	16,744			16,744
	319,124			1,049,071
Current assets				
Inventories	867,766			867,766
Trade receivables	8,091			8,091
Deposits, prepayments and other receivables	194,268			194,268
Amounts due from related parties	17,554			17,554
Amount due from a non-controlling interest	774			774
Pledged deposits	64,289			64,289
Cash at banks and in hand	103,126		(5,200)	97,926
	1,255,868			1,250,668
Current liabilities				
Trade payables	9,914			9,914
Receipts in advance, accrued charges and other payables	148,465			148,465
Amount due to a related party	24			24
Amounts due to non-controlling interests	1,761			1,761
Provision for taxation	3,469			3,469
Borrowings	308,399			308,399
	472,032			472,032
Net current assets	783,836			778,636
Total assets less current liabilities	1,102,960			1,827,707
Non-current liabilities				
Other payables	267			267
Deferred tax liabilities	1,036			1,036
	1,303			1,303
Net assets	1,101,657			1,826,404

Notes:

1. The unaudited consolidated statement of assets and liabilities of the Group as at 30 September 2016 is extracted from the published interim results announcement of the Group for the six months ended 30 September 2016.

2. Pursuant to the Sale and Purchase Agreement, the adjustment represents the acquisition of 6,519,358 B&O Shares, representing approximately 15.09% shareholding in B&O (the "B&O Acquisition"), which will be settled by way of the Company issuing 1,098,101,103 Shares (the "B&O Consideration Shares") to the Offshore Vendor upon the completion of the B&O Acquisition. The B&O Acquisition is accounted for as acquisition of an associate in accordance with Hong Kong Accounting Standard 28 *Investments in Associates and Joint Ventures* as the Directors consider that the Group will have significant influence over B&O's management, including participation in the financial and operating policy decisions after completion of the B&O Acquisition by way of the representation on the board of directors of B&O.

   For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the B&O Consideration Shares to be issued is estimated to be HK$724,747,000, based on the 1,098,101,103 Shares to be issued by the Company upon completion of the B&O Acquisition and closing share price of HK$0.66 per share as at 30 September 2016 as if the B&O Acquisition was completed on that date. Since the fair value of the B&O Consideration Shares is subject to change on the share price of the Company's shares on actual completion date, the investment in an associate to be recognised on the actual completion date may be different from the amount presented above.

3. Upon completion of the proposed acquisition of the remaining 49% equity interest in 衡准寶聲(北京)貿易發展有限公司 ("Balanorm Beo"), Balanorm Beo will become a wholly-owned subsidiary of the Group. The acquisition of the remaining 49% equity interest in Balanorm Beo (the "Balanorm Beo Acquisition") is accounted for as a transaction with a non-controlling interest in accordance with Hong Kong Financial Reporting Standard 10 *Consolidated Financial Statements*. The difference between the fair value of the consideration and the carrying value of the non-controlling interest for the remaining 49% equity interest is recognised within equity. The effects on the equity attributable to owners of the Company arising from the Balanorm Beo Acquisition is as follows:

	HK$'000
Sale Equity Consideration *(Note (a))*	41,783
Less: Carrying amount of non-controlling interest of Balanorm Beo as at 30 September 2016 *(Note (b))*	24,658
Difference to be recognised in equity attributable to owners of the Company	17,125

Note (a):

For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the shares to be issued by the Company for the Sale Equity Consideration is estimated to be HK$41,783,000, based on the 63,307,494 Shares to be issued by the Company upon completion of the Balanorm Beo Acquisition and closing share price of HK$0.66 per share as at 30 September 2016 as if the Balanorm Beo Acquisition was completed on that date. Since the actual issue price is subject to change on the actual completion date, the difference to be recognised in equity attributable to owners of the Company on the actual completion date may be different from the amount presented above.

Note (b):

The carrying amount of the 49% non-controlling interest of Balanorm Beo as at 30 September 2016 is calculated based on 49% of the net asset value attributable to equity holders of Balanorm Beo as at 30 September 2016 as extracted from the statement of financial position of Balanorm Beo as set out in Appendix III to this circular. Since the carrying amount of the 49% non-controlling interest of Balanorm Beo upon completion of the Balanorm Beo Acquisition may be different from this Unaudited Pro Forma Financial Information, the final amount to be recognised in the equity may be different from the amount presented above.

4. The adjustment represents the estimated acquisition-related costs, such as legal, accounting and other professional fees, of approximately HK$5,200,000 that would be included as part of the investment in the associate.

5. For the purpose of this Unaudited Pro Forma Financial Information, the translation of RMB to HK$ were made at exchange rate of RMB1 to HK$1.163.

6. Apart from the Acquisition, no other adjustment has been made to this Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2016.

7. The Directors confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group, and the accounting policies and the principal assumptions will be consistently adopted in the first set of the financial statements of the Company after completion of the Acquisition.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant of the Company, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group.

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INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Sparkle Roll Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sparkle Roll Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Group as at 30 September 2016 and related notes as set out on pages 358 to 360 of the Company's circular dated 25 November 2016 (the "Circular") in connection with the Company's proposed acquisitions of (i) approximately 15.09% shareholding in Bang & Olufsen A/S, and (ii) the remaining 49% equity interest in 衡准寶聲(北京)貿易發展有限公司 (collectively the "Acquisition"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on page 357 of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's financial position as at 30 September 2016 as if the Acquisition had been completed on 30 September 2016. As part of this process, information about the Group's assets and liabilities has been extracted by the directors of the Company from the Group's published interim results announcement dated 22 November 2016 that is based on the unaudited condensed interim financial information of the Group for the six months ended 30 September 2016, on which a review report has been issued and will soon be published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities for the Unaudited Pro Forma Financial Information

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of the unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 September 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

25 November 2016

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there is no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short position of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long position in the Shares

Name of Director	**Capacity**	**Number of Shares**	**Approximate percentage of shareholding** *(%)* *(Note 1)*
Mr. Tong Kai Lap ("Mr Tong")	Founder of discretionary trust (*Note 2*)	10,274,400	0.34
	Beneficial owner	9,760,000	0.33
	Subtotal	20,034,400	0.67
Mr. Zheng Hao Jiang	Beneficial owner	10,640,000	0.36
Mr. Choy Sze Chung, Jojo	Beneficial owner	1,000,000	0.03
Mr. Lee Thomas Kang Bor	Beneficial owner	1,256,000	0.04

Note(s)

(1) The percentage of shareholding is calculated on the basis of 2,979,828,850 Shares in issue as at the Latest Practicable Date.

(2) These 10,274,400 Shares were held by Rapid Alert International Limited, a company controlled by a discretionary trust of which Mr. Tong is the founder. Accordingly, Mr. Tong was deemed to be interested in these Shares.

Save as disclosed above, none of the Directors or chief executive of the Company had been notified of any interest or short position in the Shares, underlying Shares or debenture of the Company or any of its associated corporations as defined in Part XV of the SFO as at the Latest Practicable Date.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, as far as it was known by the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company disclosed under "Directors' interests and short positions in the securities of the Company and its associated corporations" section above) had an interest in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the normal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company:

Long position in the Shares

Name of Shareholder	**Capacity**	**Number of Shares**	**Approximate percentage of the issued share capital** *(%)* *(Note 1)*
Sparkle Roll Holdings Limited	Beneficial owner	2,017,272,597	67.69
Mr. Qi	Beneficial owner	7,224,000	0.24
	Interest of controlled corporation (*Note 2*)	2,017,272,597	67.69
	Subtotal	2,024,496,597	67.94
Ms. Zhu Shuang	Interest of spouse (*Note 2*)	2,024,496,597	67.94

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of the issued share capital *(%)* *(Note 1)*
Street Smart Properties Limited ("Street Smart")	Beneficial owner (*Note 3*)	309,112,000	10.37
Mr. Wang Qiang ("Mr. Wang")	Beneficial owner (*Note 3*)	18,982,000	0.64
	Interest of a controlled corporation (*Note 3*)	309,112,000	10.37
	Subtotal	328,094,000	11.01
Ms. Gao Hong ("Ms. Gao")	Interest of spouse (*Note 3*)	328,094,000	11.01
Mega Choice (International) Limited ("Mega Choice")	Beneficial owner (*Note 4*)	83,656,000	2.80
Mr. Liu Qiang	Beneficial owner (*Note 4*)	196,584,000	6.60
	Interest of controlled corporation (*Note 4*)	83,656,000	2.80
	Subtotal	280,240,000	9.40
Ms. Shi Qi	Interest of spouse (*Note 4*)	280,240,000	9.40
Hua Lang Limited ("Hua Lang")	Beneficial owner	170,704,000	5.73
Mr. Jiang Hairong ("Mr. Jiang")	Interest of controlled corporation (*Note 5*)	170,704,000	5.73
Ms. Yang Lili ("Ms Yang")	Interest of spouse (*Note 5*)	170,704,000	5.73
LC Fund V, L.P.	Beneficial owner	149,048,000	5.00

Note(s)

(1) The percentage of shareholding is calculated on the basis of 2,979,828,850 Shares in issue of the Company as at the Latest Practicable Date.

(2) These 2,017,272,597 Shares were held by Sparkle Roll Holdings Limited. Sparkle Roll Holdings Limited is a company wholly owned by Mr. Qi. Accordingly, Mr. Qi was deemed to be interested in the Shares held by Sparkle Roll Holdings Limited. Ms. Zhu Shuang is the wife of Mr. Qi. Accordingly, Ms. Zhu Shuang was deemed to be interested in the Shares held by Sparkle Roll Holdings Limited and Mr. Qi.

(3) These 309,112,000 Shares were held by Street Smart. Street Smart is a company wholly owned by Mr. Wang. Accordingly, Mr. Wang was deemed to be interested in the Shares held by Street Smart. Ms. Gao is the wife of Mr. Wang. Accordingly, Ms. Gao was deemed to be interested in the Shares held by Street Smart and Mr. Wang.

(4) These 83,656,000 Shares were held by Mega Choice. Mega Choice is a company wholly owned by Mr. Liu. Accordingly, Mr. Liu was deemed to be interested in the Shares held by Mega Choice. Ms. Shi is the wife of Mr. Liu. Accordingly, Ms. Shi was deemed to be interested in the Shares held by Mega Choice and Mr. Liu.

(5) These 170,704,000 Shares were held by Hua Lang. Hua Lang is a company wholly owned by Mr. Jiang. Accordingly, Mr. Jiang was deemed to be interested in the Shares held by Hua Lang. Ms. Yang is the wife of Mr. Jiang. Accordingly, Ms. Yang was deemed to be interested in the Shares held by Hua Lang and Mr. Jiang.

Save as disclosed herein, there is no person known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased, or which were proposed to be acquired or disposed of by, or leased to any member of the Group since 30 September 2016 (the date to which the latest published unaudited consolidated financial statements of the Group was made up). As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting and which was significant in relation to the business of the Group.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or their respective close associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder) as at the Latest Practicable Date.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group nor were there any other service agreements proposed which would not expire or be determinable by the member of the Group within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

Save for the Sale and Purchase Agreement, no contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by members of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date and is or may be material.

8. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
TC Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants

Each of TC Capital and BDO Limited had given and had not withdrawn its written consent to the issue of this circular with copies of its letter and/or reports and the references to its name included in this circular in the forms and contexts in which they are respectively included.

Each of TC Capital and BDO Limited, confirmed that as at the Latest Practicable Date:

(a) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2016, being the date to which the latest published audited accounts of the Company were made up.

9. GENERAL

(a) The company secretary and the financial controller of the Company is Mr. Li Yat Ming. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business of the Company is Rooms 2028-36, 20/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

(c) The principal share registrar of the Company is MUFG Fund Services (Bermuda) Limited of The Belvedere Building, 69 Pitts Bay Road, Pembroke, Bermuda.

(d) The Hong Kong branch share registrar of the Company is Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company in Hong Kong at Rooms 2028-36, 20/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours on a business day in Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the bye-laws of the Company;

(b) the Sale and Purchase Agreement;

(c) the annual reports of the Company for each of the three financial years ended 31 March 2014, 2015 and 2016 and the interim results announcement of the Company for the six months ended 30 September 2016;

(d) the letter from the Listing Rules Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;

(e) the letter from TC Capital, the text of which is set out on pages 29 to 58 of this circular;

(f) the annual reports of B&O for each of the three financial years ended 31 May 2016 and the interim report of B&O for the three months ended 31 August 2016 as referred to in Appendix II of this circular;

(g) the accountant's report on PRC JV as set out in Appendix III of this circular;

(h) the report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IV to this circular;

(i) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(j) this circular.

Sparkle Roll Group Limited
耀萊集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 970)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Sparkle Roll Group Limited (the "**Company**") will be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 4:30 p.m. on 13 December 2016 to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement dated 20 October 2016 (the "**Sale and Purchase Agreement**") and entered into between the Company, Sparkle Roll Xin Tian Di Commerce Development Limited*(北京耀萊新天地商業發展有限公司), Sparkle Roll Holdings Limited, Beijing Sparkle Roll Investment Limited*(北京耀萊投資有限公司), and Mr. Qi Jian Hong(綦建虹), a substantial shareholder of the Company, in relation to the acquisition of approximately 15.09% shareholding in Bang & Olufsen A/S and 49% of the entire paid up capital in Balanorm Beo (Beijing) Trading Development Limited*(衡准寶聲(北京)貿易發展有限公司)(the "**Acquisition**"), a copy of which has been produced to the meeting and signed by the chairman of the meeting marked "A" and initialed by the Chairman of the meeting for the purpose of identification, and that all the transactions in relation to the Acquisition (as defined in the circular of the Company dated 25 November 2016 (the "**Circular**")) contemplated thereunder be and they are hereby approved, confirmed and ratified;

(b) conditional upon The Stock Exchange of Hong Kong Limited granting the listing of and the permission to deal in, the Consideration Shares (as defined below), the directors (the "**Directors**") of the Company be and are hereby generally and specifically authorised to allot and issue such number of ordinary shares of the Company (the "**Specific Mandate**"), initially up to 1,161,408,597 new ordinary shares of the Company (the "**Consideration Shares**") at the issue price of HK$0.45 each; and the Specific Mandate for the allotment and issue of the Consideration Shares is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

(c) the Directors be and are hereby authorised to exercise all the powers of the Company to perform all such acts, deeds and things and execute all documents and to take all steps and/or to enter into any transactions, arrangements, contracts, supplemental agreements as they consider necessary, desirable or expedient to effect and implement and/or to give effect to the terms of the Sale and Purchase Agreement, the Acquisition and the transactions contemplated thereunder (with any amendments to the terms of such agreement which are not inconsistent with the purpose thereof as may be approved by the Directors) and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers which are not material in the context of the entire Acquisition as a whole. For the avoidance of doubt, all such acts, deeds and things and such documents to be performed or executed are limited to acts, deeds, things, documents, transactions, arrangements, contracts, and supplemental agreements that are ancillary or giving effect to the Sale and Purchase Agreement, the Acquisition and the transactions contemplated thereunder and are not inconsistent with the purpose thereof as may be approved by the Directors."

By order of the Board
Sparkle Roll Group Limited
Li Yat Ming
Company Secretary

Hong Kong, 25 November 2016

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Rooms 2028-36,
20/F Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend, and subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the Company's Hong Kong branch share registrar in Tricor Secretaries Limited at Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong not less than 48 hours before the time for scheduled for holding the Meeting or adjourned meeting thereof.

3. A form of proxy for use at the Meeting is enclosed. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution, except at an adjourned meeting or on a poll demanded at the Meeting or an adjourned meeting in cases where the Meeting was originally held within 12 months from such date.

4. The register of members of the Company will be closed from Monday, 12 December 2016 to Tuesday, 13 December 2016 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 9 December 2016.

5. Unless otherwise defined herein, capitalised terms used in this notice shall have the same meanings as those used in the circular of the Company dated 25 November 2016.

As at the date of this notice, the Company has three executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Tong Kai Lap, Mr. Zheng Hao Jiang and Mr. Zhu Lei. The non-executive Directors are Mr. Zhang Si Jian, Mr. Gao Yu and Mr. Qi Jian Wei. The independent non-executive Directors are Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor.

* *for identification purpose only*